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appearing for Citizens Utility Board;
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2 MS. KAREN LUSSON
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3 100 West Randolph Street, 11th Floor
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4 appearing for the People of the State of
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30 North LaSalle Street, Suite 900
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8 MR. CONRAD R. REDDICK
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appearing for the City of Chicago;

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11 MS. JOHN FEELEY
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12 160 North LaSalle Street, Suite C-800
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13 appearing for the Staff of the ICC:

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19 SULLIVAN REPORTING COMPANY, by
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1		<u>I</u>	<u>N</u>	<u>D</u>	<u>E</u>	<u>X</u>			
2	<u>Witnesses:</u>	<u>Direct</u>	<u>Cross</u>	<u>Re-</u>	<u>Re-</u>	<u>By</u>			
3	J. Hoffman Malueg	37	40	48					
4	J. Schott	51	54						
5			75						
6	V. Grace	157	129	148	152				
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8	J. McKendry	262	200	259				260	
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1	<u>E X H I B I T S</u>		
2	<u>Number</u>	<u>For Identification</u>	<u>In Evidence</u>
3	North Shore Gas		
	#JCHM 1.0-1.9		40
4	#JFS Ex. 1.0		54
	Peoples Gas		
5	#JCHM 1.0-1.9		40
	#JFS Ex. 1.0		54
6	NS-PGL		
	#2.0-2.3 & 3.0		40
7	#JFS 2.1, 3.0&3.1		54
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	#1&2	70	75
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1 JUDGE MORAN: Pursuant to the direction of the
2 Illinois Commerce Commission, we call Docket
3 09-0166 consolidated with 09-0167. This is North
4 Shore Gas Company and the Peoples Gas Light and
5 Coke Company with the respective proposed general
6 increase in rates for gas services.

7 May we have the appearances for the
8 record, please.

9 MS. KLYASHEFF: Appearing for North Shore Gas
10 Company and for the Peoples Gas Light and Coke
11 Company, Mary Klyasheff, 130 East Randolph Drive,
12 Chicago, Illinois 60601.

13 MR. EIDUKAS: Appearing for the North Shore Gas
14 Company and the Peoples Gas Light and Coke Company,
15 Theodore T. Eidukas, E-i-d-u-k-a-s of Chico and
16 Nunes, 333 West Wacker Drive, Suite 1800, Chicago
17 Illinois 60606.

18 MR. RATNASWAMY: Also appearing for North Shore
19 Gas Company and the Peoples Gas Light and Coke
20 Company, John Ratnaswamy, R-a-t-n-a-s-w-a-m-y,
21 Foley and Lardner, LLP, 321 North Clark Street,
22 Suite 2800, Chicago, Illinois 60654.

1 MR. FOSCO: Appearing on behalf of Staff of the
2 Illinois Commerce Commission, Carmen Fosco, John
3 Feeley and Megan McNeill, 160 North LaSalle Street,
4 Suite C-800, Chicago, Illinois 60601.

5 MS. LUSSON: On behalf of the People of the State
6 of Illinois, Karen Lusson and Kristin Munsch, 100
7 West Randolph, 11th Floor, Chicago 60601.

8 MR. DONOVAN: Appearing on behalf of
9 Constellation New Energy Gas Division, LLC, Joseph
10 E. Donovan, D-o-n-o-v-a-n, 111 Marketplace,
11 Baltimore, Maryland 21202.

12 MR. JOLLY: Appearing on behalf of the City of
13 Chicago, Ronald D. Jolly and Susan Condon, 30 North
14 LaSalle, Suite 900, Chicago, Illinois 60602. Also
15 appearing on behalf of the City Conrad R. Reddick,
16 1015 Crest Street, Wheaton, Illinois 60189.

17 MS. SODERNA: Appearing on behalf of the Citizens
18 Utility Board, Julie Soderna, 309 West Washington,
19 Suite 800, Chicago, Illinois 60601.

20 MR. TOWNSEND: On behalf of Interstate Gas Supply
21 of Illinois, Inc., a member of the Retail Gas
22 Suppliers, the law firm of DLA Piper, LLP, US, 203

1 North LaSalle, Suite 1500, Chicago, Illinois 60601
2 by Christopher J. Townsend, Christopher N. Skey,
3 Amanda C. Jones and Cathy Yu.

4 MR. MOORE: Appearing on behalf of Dominion
5 Retail, Inc., a member of the Retail Gas Suppliers,
6 Stephen Moore of the law firm of Rowland and Moore,
7 200 West Superior Street, Suite 400, Chicago,
8 Illinois 60654.

9 JUDGE MORAN: Are there any other appearances?
10 The record will reflect that there are none. We
11 have, as the first order of business, a verified
12 motion to appear pro hoc, and this is for Bradley
13 D. Johnson. Are there any objections to this
14 motion?

15 MR. RATNASWAMY: Not that I would object, your
16 Honor, but it's Jackson.

17 JUDGE MORAN: I'm sorry, you're right because we
18 have a witness named Johnson and we're always
19 confused. Having reviewed the motion and finding
20 that it sets out the elements that are customary
21 for such motion to be granted, the motion is
22 granted by the ALJ's.

1 How many witnesses are here that are
2 testifying? We have four witnesses scheduled, is
3 everyone here? I know we have Ms. Hoffman by
4 telephone, we have Mr. Schott, Ms. Grace and
5 Mr. McKendry, are those three in the room?
6 Mr. McKendry.

7 MS. KLYASHEFF: Ms. Grace is not in the room.

8 JUDGE MORAN: All right.

9 MR. FEELEY: Your Honor, staff has two
10 preliminary matters, whenever you want to take
11 those up.

12 JUDGE MORAN: Sure, fine, let's take yours.

13 MR. FEELEY: Staff filed two motions to strike.
14 One was a motion to strike portions of the
15 testimony of Exhibit SDM-3.0 and all of SDM-3.1
16 that's related to testimony of Mr. Marano.

17 The Company filed a response that we
18 received on Friday and we just wanted to find
19 out -- we think a response is due at the close of
20 business today, but we just wanted to --

21 JUDGE MORAN: I believe that's correct, according
22 to the case management schedule. And Mr. Marano is

1 not testifying until Thursday, so we will make that
2 ruling with plenty of time, okay, once we get your
3 reply.

4 MR. FEELEY: And then the other motion regarded
5 PRN -- portions of the testimony of PRN-3.0 and all
6 of exhibit PRN-3.2 that related to Mr. Moul. We
7 filed our motion, it's our understanding that the
8 Company is not filing a response to that.

9 And two things, one we're waiting for a
10 ruling on that. And second was when we filed the
11 motion on e-docket, there was an affidavit of
12 Mr. McNally that was served on the parties, but it
13 didn't get put on e-docket so we're going to
14 re-file that so that that record is full and
15 accurate.

16 But we're just waiting for a ruling on
17 whether our motion to strike portions of Mr. Moul's
18 testimony and all of PRN-3.2.

19 JUDGE MORAN: And you'll have a ruling at the end
20 of the day.

21 MR. FEELEY: And we can file that complete
22 document on e-docket with the affidavit.

1 JUDGE MORAN: That is a document --

2 MR. FEELEY: The affidavit wasn't put onto

3 e-docket.

4 JUDGE MORAN: Whose affidavit, though?

5 MR. FEELEY: There is an affidavit of one of our

6 witnesses, Mr. McNally. It was sent out with the

7 motion, it was referred to in the motion, it was

8 sent to all the parties.

9 JUDGE MORAN: Yes, then you do want to correct

10 that.

11 MR. FEELEY: Thank you, that's all we have.

12 JUDGE MORAN: Are there any other preliminary

13 matters?

14 MR. RATNASWAMY: First, on the motion to strike,

15 it's true that the Companies are not filing a

16 response and don't object to the primary leaves

17 sought by the motion, which is striking a portion

18 of the narrative of Mr. Moul's surrebuttal and

19 striking one of the attachments. We would object

20 to the alternative relief, but we think that's moot

21 given --

22 MR. FEELEY: Yeah, we're not seeking the

1 alternative relief.

2 JUDGE MORAN: Okay, so the Companies have no
3 objection to the struck portion of that motion.

4 MR. RATNASWAMY: That's correct. And the other
5 preliminary matter, there are nine, at this point
6 nine, maybe more will join them, but nine witnesses
7 who have no cross scheduled. All nine, I think,
8 are out of town witnesses. They are witnesses of
9 four different -- well, I was going to say four
10 parties, but staff, one of the intervenors and the
11 two utilities.

12 Not that I'm literally speaking for all
13 of the parties on that, but it's our hope to have
14 all of those admitted by affidavit and I think
15 because they're out of town we would respectfully
16 request if you could give us yea or nay on that
17 earlier, rather than later, that would help us.

18 JUDGE MORAN: I understand, whether, in fact, we
19 are waiving cross on those witnesses. We will get
20 that to you either at lunch or at the end of the
21 day.

22 MR. RATNASWAMY: Thank you, your Honor.

1 JUDGE MORAN: And I was thinking that possibly we
2 would put the affidavits in on Friday, which seems
3 to be a short day and that would give everybody
4 time to put together their affidavits.

5 MR. RATNASWAMY: Thank you.

6 MR. FEELEY: I have one more minor matter. Do
7 you want the parties to provide you with an exhibit
8 list that would --

9 JUDGE MORAN: Absolutely, absolutely. That is --
10 that will help verify that everything we are
11 recording today is correct and accurate.
12 Especially when we notice that some testimonies
13 have had revisions, erratas and all sorts of
14 adjustments, we're not sure where we're at,
15 whether, in fact, parties will file a new
16 up-to-date copy of that testimony, which we think
17 would probably be the best in a situation like
18 that, where a witness testimony is encumbered by
19 multiple --

20 MR. FOSCO: Your Honors would prefer a new
21 filing, including the complete updated filing?

22 JUDGE MORAN: I would think so.

1 MR. FEELEY: And could we provide the lists
2 sometimes next week after we've marked the record?

3 MR. FOSCO: So we have cross exhibits in.

4 JUDGE MORAN: Right, yeah, you can do that. It's
5 a check on us and a check, because if it's one
6 thing that we want to make sure is that the record
7 is up to date and correct. And in the meantime, if
8 you have a piece of testimony like that, from your
9 witness, you might say when it was filed on
10 e-docket, when the corrections were in and when you
11 will file the new up-to-date version that includes
12 just those corrections.

13 MR. RATNASWAMY: I'm sorry, your Honor, if we
14 already filed a corrected version are you saying
15 you want the whole thing filed again?

16 JUDGE MORAN: Not if you file --

17 JUDGE HAYNES: Our problem is if there is a piece
18 of testimony with three different corrections,
19 rather than saying we filed it here and then there
20 is this correction, this one, this one, if you
21 could just file a new one on e-docket and that will
22 be the exhibit.

1 JUDGE MORAN: If you've already filed a revised
2 and there are no further corrections, that can
3 stand, but you have to give us the exact date of
4 that e-docket filing.

5 MR. RATNASWAMY: At least the version of the
6 exhibit that we're working on just has the filed
7 versions on them and they've all been filed, other
8 than the new Mr. Moul, which will be forthcoming.

9 MR. REDDICK: Clarification. Was there a ruling
10 in response to Mr. Ratnaswamy's comments about the
11 staff motion?

12 JUDGE MORAN: We're going to make that ruling at
13 lunchtime.

14 MR. REDDICK: Okay, thank you.

15 JUDGE MORAN: Okay, are there any other
16 preliminary matters? If not, then we have a
17 witness who is going to be appearing by telephone
18 for cross examination. Has your witness called in?
19 I'm going to swear Ms. Hoffman, Mr. Schott,
20 Ms. Grace and Mr. McKendry. So will those
21 witnesses please raise your right hand.

22 (Witnesses sworn.)

1 JUDGE MORAN: The witness is sworn and
2 Mr. Ratnaswamy or Ms. Klysheff, you are going to
3 put on your witness.

4 MS. KLYASHEFF: Thank you, your Honor.

5 JOYLYN HOFFMAN MALUEG,
6 called as a witness herein, having been first duly
7 sworn, was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY

10 MS. KLYASHEFF:

11 Q. Ms. Hoffman Malueg, would you please state
12 your name and business address for the record?

13 A. The name is Joylyn Hoffman Malueg spelled
14 H-o-f-f-m-a-n, space, M-a-l-u-e-g. My business
15 address is 700 Adams Street, Green Bay, Wisconsin
16 54307.

17 Q. Do you have before you the following four
18 documents, Direct Testimony of Joylyn Hoffman
19 Malueg with the caption of North Shore Gas Company,
20 marked for identification as North Shore Exhibit
21 JCHM 1.0. Direct Testimony of Joylyn Hoffman
22 Malueg with a caption of the Peoples Gas Light and

1 Coke Company, marked for identification as Peoples
2 Gas Company Exhibit JCHM 1.0 revised. Rebuttal
3 testimony of Joylyn Hoffman Malueg with a caption
4 of this consolidated proceeding and marked for
5 identification as NS-PGL Exhibit JCHM 2.0 and
6 surrebuttal telephone of Joylyn Hoffman Malueg with
7 the caption of this consolidated proceeding and
8 marked for identification as NS-PGL Exhibit JCHM
9 3.0?

10 A. Yes, I do.

11 Q. Do you have any changes or corrections to
12 any of these documents?

13 A. No, I do not.

14 Q. If I were to ask you today the questions
15 contained in those documents, would your answers be
16 the same as those included in the documents?

17 A. Yes, they would.

18 Q. Do these documents contain the sworn
19 testimony that you wish to give in this proceeding?

20 A. Yes, they do.

21 Q. Do you have before you the following
22 exhibits that were included with your testimony,

1 North Shore Exhibits JCHM 1.1 through 1.9, Peoples
2 Gas Exhibits JCHM 1.1 through 1.9, NS-PGL Exhibits
3 JCHM 2.1 through 2.3?

4 A. Yes, I do.

5 Q. Are these the exhibits referenced by you in
6 your testimony?

7 A. Yes, they are.

8 Q. Were they prepared by you or under your
9 supervision or direction or are they copies of data
10 responses?

11 A. Yes, they are.

12 MS. KLYASHEFF: Subject to cross examination,
13 North Shore and Peoples Gas move for the admission
14 of North Shore Exhibit JCHM 1.0 through 1.9 of
15 which 1.8 is a revised exhibit. Peoples Gas
16 Exhibits JCHM 1.0 revised and 1.1 through 1.9.
17 NS-PGL Exhibit JCHM 2.0 through 2.3 and JCHM
18 Exhibit 3.0. And the witness is now available for
19 cross.

20 JUDGE MORAN: Are there any objections to any of
21 the testimony as specified? Here hearing none,
22 that testimony is admitted.

1 (Whereupon, North Shore Gas
2 Exhibit No. JCHM 1.0-1.9, Peoples
3 Gas Exhibit No. JCHM 1.0-1.9,
4 NS-PGL Exhibits Nos. 2.0-2.3 and
5 3.0 were admitted into evidence
6 as of this date having been
7 previously filed on e-docket.)

8 JUDGE MORAN: And who will be doing cross? We
9 have here Staff and the Attorney General. Who
10 wants to go first?

11 MR. FEELEY: I can go first.

12 JUDGE MORAN: Thank you, Mr. Feeley. And in the
13 meantime, Ms. Klysheff, you will give us the dates
14 of the e-filing of this testimony.

15 MS. KLYASHEFF: Yes, your Honor.

16 MS. LUSSON: Actually, your Honor, the Attorney
17 General has no cross for Ms. Hoffman.

18 JUDGE MORAN: Okay, then Mr. Feeley, please.

19 CROSS EXAMINATION

20 BY

21 MR. FEELEY:

22 Q. Good morning, Ms. Hoffman Malueg, my name

1 is John Feeley and I represent the Staff.

2 **A.** Good morning.

3 **Q.** All my questions are regarding your

4 surrebuttal testimony, I believe.

5 **A.** Okay.

6 **Q.** I direct your attention to Lines 55 through

7 88 of your surrebuttal?

8 **A.** Line 58?

9 **Q.** 55 through 88.

10 **A.** Okay, I'm there.

11 **Q.** In your testimony there, you refer -- you

12 make reference to the 2007 final order. Do you see

13 that?

14 **A.** Yes, I do.

15 **Q.** When you make that reference, are you

16 referring to the Companies last rate case in Docket

17 Nos. 07-0241 and 242 consolidated?

18 **A.** Yes.

19 **Q.** Did you review the entire section of that

20 2007 final order pertaining to the issues of

21 classification of uncollectible account expense,

22 Account No. 904? And that discussion, in

1 particular, Pages 199 through 201.

2 **A.** Yes, I did.

3 **Q.** Do you agree that the 2007 final order
4 adopted Staff Witness Mike Klopf's (phonetic)
5 proposal that Account 904 expenses should be
6 classified as a combination of customer cost,
7 demand costs and commodity costs, including gas
8 costs?

9 **A.** Correct.

10 **Q.** Do you agree that by adopting Staff Witness
11 Mike Klopf's proposal that Account 904 expenses
12 should be classified as a combination of customer
13 costs, demand costs and commodity costs, including
14 gas costs, the utilities were required to perform a
15 cost of service study that allocated their Account
16 904 expenses to the customer charge, demand charge
17 and commodity charge?

18 **A.** Are you speaking in the compliance filing
19 for that docket?

20 **Q.** I'm speaking -- well, I can break it up.
21 In the compliance filing they were required to do
22 that, correct?

1 **A.** Correct, I believe so.

2 **Q.** And on a going forward basis, do you agree
3 that they were required to classify those expenses
4 as a combination of customer cost, demand cost,
5 commodity costs?

6 **A.** I wouldn't view that as being a
7 requirement. I see it more as being a suggestion
8 of what to do possibly going forward. I didn't
9 think it eliminated the companies to view other
10 options of classifying Account 904.

11 **Q.** And what in that order made you think that
12 it was just a suggestion and not a requirement?

13 **A.** It wasn't just the final order in and of
14 itself, I looked at what other companies were
15 doing, in the State of Illinois, other gas
16 utilities and it didn't seem like other gas
17 utilities in Illinois were being required to
18 classify Account 904 in such a manner.

19 **Q.** But if you just look at that order, the
20 2007 final order, that only, did you see that as a
21 requirement?

22 **A.** If you're basing future actions off of the

1 final order, in and of itself, then yes.

2 Q. And the rates that are in effect for the
3 Company today, they're based upon those Account 904
4 expenses being allocated to the customer charge,
5 demand charge and commodity charge, correct?

6 A. I would assume so. I wasn't a party to the
7 case back in '07, but that is my understanding and
8 my assumptions.

9 Q. Is it your understanding that compliance
10 filing was based upon those 904 expenses being
11 allocated to customer charge, demand charge and
12 commodity charge?

13 A. Correct.

14 Q. Okay. Direct your attention to Lines 85
15 through 87 of your surrebuttal.

16 A. I'm there.

17 Q. And I think you mentioned this
18 previously -- one second, please.

19 Did you review a cost of service study,
20 where Account 904, gas -- where Account 904
21 expenses were allocated to cut customer demand --
22 to customer demand and commodity components?

1 **A.** Can you repeat that question, please?

2 **Q.** As part of your testimony in this docket,
3 preparing for this docket, did you review an
4 economic cost of service study where Account 904
5 expenses were allocated to customer demand and
6 commodity costs?

7 **A.** The only study I'm aware of that allocates
8 or classifies Account 904 to the demand, commodity
9 and customer classifications would be the
10 compliance filing of North Shore in Peoples last
11 rate case.

12 **Q.** And did you review that cost of service
13 study for that compliance filing as part of your
14 work in this docket?

15 **A.** Yes, I did.

16 **Q.** Going back to your testimony again at Lines
17 83 through 87, you state that it did not appear to
18 the utilities that the 2007 final order set a
19 generally applicable policy, considering that other
20 gas utilities have not been directed to use this
21 approach. Therefore, the utilities saw no barriers
22 to using what they considered to be the appropriate

1 classification and allocation methodologies for
2 Account 904 which are not circular in nature. Do
3 you see that in your testimony?

4 **A.** Yes, I do.

5 **Q.** Does your statement mean that the companies
6 ran their cost of service study such that their
7 Account 904 expenses are not allocated according to
8 the blend of costs that result in charges on bills
9 of uncollectible customer accounts, that is the
10 customer charge, demand charge and the commodity
11 charge?

12 **A.** To clarify, the cost of service study, and
13 I think I'm answering your question correctly, but
14 the cost of service study that I put together does
15 not classify Account 904, uncollectibles expense,
16 to the demand, commodity or customer components.
17 It only classifies Account 904 to the customer
18 classification.

19 **Q.** Okay. And given the fact that you put all
20 those costs into the customer charge and none of
21 them to demand charge or commodity charge, can you
22 explain how that cost of service study is compliant

1 with the 2007 final order?

2 **A.** I guess I would like to clarify. I don't
3 like using the terminology charge, to me that
4 implies how costs are recovered through rate
5 design. And the cost of service, I classify them
6 to a certain bucket. It's up to the rate design
7 witness to determine how those buckets should be
8 recovered within rates.

9 **Q.** Okay. And you put all of the Account 904
10 expenses into one bucket rather than three,
11 correct?

12 **A.** Correct.

13 **Q.** And the one bucket you put it into was the
14 customer charge bucket?

15 **A.** Customer classification, correct.

16 **Q.** And none went to a demand bucket or a
17 commodity bucket, correct?

18 **A.** Correct.

19 **Q.** And by putting all of those Account 904
20 expenses into one bucket, rather than three, how is
21 that compliant with the 2007 final order?

22 **A.** Again, I guess it is not compliant with the

1 final order, because we did not feel the 2007 final
2 order was restrictive in that respect that it was a
3 non-issue that we had to do it that one way. We
4 felt we were not limited to just doing it that way.

5 Q. And the rates that the Company filed for
6 the current case are based on a cost of service
7 study that allocates 100 percent of the Account 904
8 expenses to the customer charge or the customer
9 account bucket?

10 A. Correct.

11 MR. FEELEY: One moment, please. Thank you,
12 Ms. Hoffman Malueg, that's all the cross that I
13 have for you.

14 JUDGE MORAN: Anybody else have any cross? Any
15 redirect?

16 MS. KLYASHEFF: The company has a couple redirect
17 questions.

18 JUDGE MORAN: Please proceed.

19 REDIRECT EXAMINATION

20 BY

21 MS. KLYASHEFF:

22 Q. Ms. Hoffman Malueg, are you a lawyer?

1 **A.** No, I am not.

2 **Q.** Do you know, under Illinois law, the extent
3 to which Commission orders are binding on
4 subsequent filings?

5 **A.** No, I do not.

6 MS. KLYASHEFF: I have no further questions.

7 JUDGE MORAN: Okay, any recross?

8 MR. FEELEY: No recross.

9 JUDGE MORAN: We don't have any questions for
10 Ms. Hoffman Malueg and therefore the witness is
11 excused. And thank you very much to the witness.

12 (Witness excused.)

13 MR. RATNASWAMY: Just a practical thing, we are
14 intending to close that phone line, I don't know if
15 there is people in Springfield who then need to
16 call in on a different.

17 JUDGE MORAN: There is a different system that
18 kicks in, is my understanding. And Peter is there
19 and he will help us a with all that. Thank God.

20 MR. RATNASWAMY: I can give you the dates, your
21 Honor, for the filing.

22 JUDGE MORAN: That would be great, thank you.

1 MR. RATNASWAMY: You want those now, right?

2 JUDGE MORAN: Yes, we would want those now.

3 MR. RATNASWAMY: So with regard to her North
4 Shore direct, Exhibits 1.0 through 1.7 and 1.9 were
5 filed on e-docket February 25th. 1.8 revised was
6 filed on May 29th. For her Peoples direct, the
7 revised narrative, 1.0, was filed on May 29th. The
8 Attachments 1.1 through 1.9 were filed on
9 February 25th. All of her rebuttal, which is 2.0
10 and 3, Attachments, 2.1, 2 and 3, were filed on
11 July 8th. And her surrebuttal was filed on
12 August 17th. Is that right? No, it's August 4th,
13 isn't it?

14 JUDGE MORAN: You have to tell us. But it
15 doesn't sound right to me. I guess it is 8/17.

16 MR. RATNASWAMY: All right, sorry, I've lost
17 track, August 17th is right. Guess I should stick
18 with what's written down here.

19 MR. RATNASWAMY: North Shore Gas Company and the
20 Peoples Gas Light and Coke Company calls their next
21 witness, Mr. James Schott.

22 JUDGE MORAN: And the witness has been sworn.

1 JAMES SCHOTT,
2 called as a witness herein, having been first duly
3 sworn, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY

6 MR. RATNASWAMY:

7 Q. Mr. Schott, will you please state your name
8 for the record and spell your last name?

9 A. My name is James F. Schott, S-c-h-o-t-t.

10 Q. What is your business address, please?

11 A. 130 East Randolph Street, Chicago,
12 Illinois 60601.

13 Q. By whom are you employed?

14 A. I am employed by Integris Energy Group.

15 Q. And in what capacity or capacities?

16 A. Vice president of regulatory affairs for
17 Integris Energy Group, Peoples Gas and North Shore.

18 Q. And did you prepare or have prepared under
19 your direction supervision or control, direct
20 testimony on behalf of North Shore Gas Company that
21 was filed on e-docket on May 7th -- I'm sorry, it's
22 1.0 revised filed on May 7th?

1 **A.** Yes.

2 **Q.** And did you also prepare or have prepared
3 under your direct supervision and control, direct
4 testimony on behalf of the Peoples Gas Light and
5 Coke Company, Exhibit Peoples Gas 1.0 revised,
6 filed on e-docket on May 7th?

7 **A.** Correct.

8 **Q.** And if I were to ask you the questions that
9 appear in your direct testimony on behalf of the
10 two companies, would you give the same answers,
11 subject to any revisions that were made in your
12 rebuttal or surrebuttal?

13 **A.** Yes.

14 **Q.** Did you also prepare rebuttal testimony on
15 behalf of both companies, Exhibit No. 2.0 with an
16 Attachment No. 2.1, that was filed on e-docket on
17 July 8th?

18 **A.** Yes.

19 **Q.** And if I were to ask you the questions that
20 appear in that testimony, would you give the same
21 answers subject to any revisions that may have been
22 made in your surrebuttal?

1 **A.** Yes.

2 **Q.** And finally, did you prepare or have
3 prepared under your direction supervision or
4 control, surrebuttal testimony on behalf of the two
5 companies, Exhibit No. 3.0, with an Attachment 3.1,
6 filed on e-docket on August 17th?

7 **A.** Yes.

8 **Q.** And if I were to ask you the questions that
9 appear in that testimony, would you give the same
10 answers?

11 **A.** Yes.

12 MR. RATNASWAMY: Your Honors, I move the
13 admission of North Shore Exhibit 1.0 revised,
14 Peoples Gas Exhibit 1.0 revised. North Shore and
15 Peoples Gas Exhibits 2.0 -- JFS 2.0 and 2.1. North
16 Shore and Peoples Gas JFS 3.0 and 3.1 and I should
17 have said JFS before both 1.0's as well.

18 JUDGE MORAN: Are there any objections to the
19 admissions of any of the evidence presented by the
20 witness? Hearing no objections, who wishes to
21 begin with the cross examination? Oh, and all
22 those exhibits are admitted.

1 (Whereupon, North Shore JFS Ex.
2 1.0, Peoples Gas JFS Ex. 1.0,
3 NS-PGL JFS Ex. 2.0 NS-PGL JSF Ex.
4 2.1, NS-PGL JFS Ex. 3.0 and
5 NS-PGL JFS Ex. 3.1 were
6 admitted into evidence as
7 of this date having been
8 previously filed on e-docket.)

9 MS. LUSSON: We'll go, your Honor.

10 CROSS EXAMINATION

11 BY

12 MS. LUSSON:

13 Q. Good morning, Mr. Schott.

14 A. Good morning, Ms. Lusson.

15 Q. Mr. Schott, I wanted to ask you some
16 questions about your proposed Rider ICR. Is it
17 correct that the Companies proposal for its Rider
18 ICR would recover three monthly surcharges to
19 customer classes 1, 2, 4, and 8, the return on
20 capital investment depreciation expense and
21 incremental operation and maintenance expenses
22 associated with investment in its distribution

1 infrastructure?

2 **A.** Yes.

3 **Q.** And just to clarify for the record, Classes

4 1, 2, 4 and 8, 1 would be residential; is that

5 correct?

6 **A.** Yes.

7 **Q.** 2 is general service, which is essentially

8 small commercial customers?

9 **A.** Yes.

10 **Q.** 4 would be large volume demand service?

11 **A.** Yes.

12 **Q.** And 8 would be compressed natural gas

13 service?

14 **A.** Correct.

15 **Q.** And can you define, for the record, what

16 that class -- Rate Class 8 customer typically looks

17 like, the compressed natural gas service? And

18 define, I guess to state another way, what actually

19 is that classification? What kind of services does

20 it obtain from the Company?

21 **A.** To be honest, I'm not -- I mean, I'm not

22 100 percent sure.

1 **Q.** Okay.

2 JUDGE MORAN: Is there a better witness that can

3 answer that question?

4 THE WITNESS: Valerie Grace.

5 JUDGE MORAN: Thank you.

6 BY MS. LUSSON:

7 **Q.** Peoples proposes to include all new

8 investments in Accounts 376, which is mains; is

9 that correct?

10 **A.** Correct.

11 **Q.** 378, which is measuring and regulating

12 station equipment general; is that correct?

13 **A.** Yes.

14 **Q.** 379, which is measuring and regulating

15 station equipment, city gate check stations; is

16 that correct?

17 **A.** Yes.

18 **Q.** And a portion of its new investments in

19 Accounts 380, which is services; 381, meters and

20 383, house regulators; is that correct?

21 **A.** Yes.

22 **Q.** Now, in terms of measuring and regulating

1 station equipment, can you describe briefly what
2 that is, just as a definition for the record?

3 A. Which account?

4 Q. Measuring and regulating station equipment,
5 which is Account 378?

6 A. Again, that's not my area of expertise, but
7 given my --

8 Q. Should I ask Ms. Grace?

9 A. That would probably be Mr. Doerk.

10 Q. And would the same be -- in terms of a
11 definition for the measuring and regulating station
12 equipment for city gate check stations?

13 A. Yes.

14 Q. And can you define for the record exactly
15 what services -- what role services play in the
16 distribution network?

17 A. Services are the connection between the
18 main and the -- and end users facilities.

19 Q. And I think we all know what meters are,
20 how about house regulators?

21 A. That would be the regulator that is at the
22 end of the service that regulates the pressure

1 going into the facility.

2 Q. Now, it's correct, isn't it, that the rider
3 does not cover simply incremental forecasted
4 investments in those accounts we've been
5 discussing, over and above the annual spending
6 levels the Company currently experiences, does it?
7 It reflects all new investment in those accounts?

8 A. Yes.

9 Q. Now, to the extent it represents -- the ICR
10 surcharge would represent a percentage of the
11 forecasted investments for Accounts 381, meters and
12 383, house regulators, who sets those percentages
13 and how?

14 A. I would defer that question to Ms. Grace.

15 Q. Now, to the extent this is billed over a
16 9-month period, April through December; is that
17 correct?

18 A. Yes.

19 Q. So, again, Rider ICR works in a way that
20 calculates surcharges based on forecasted
21 investments in these plant accounts that we've been
22 discussing; is that right?

1 **A.** Yes.

2 **Q.** And are those forecasts filed on a yearly
3 basis for purposes of the surcharge or are they
4 updated on a monthly basis?

5 **A.** Again, I'll defer to Ms. Grace on the
6 mechanics of the rider itself.

7 **Q.** So do you know, then, if monthly ICR
8 surcharges would be adjusted each month for, say,
9 unexpected work slowdowns, weather or other factors
10 that might affect the pace of infrastructure
11 investments?

12 **A.** Again, that's addressed to Ms. Grace's
13 testimony.

14 **Q.** And is it still correct that, on average,
15 the Company currently replaces about 45 miles of
16 cast iron main annually?

17 **A.** More or less, yes.

18 **Q.** And that amount has translated to capital
19 expenditures related to main replacement in about
20 52 million?

21 **A.** I would not want to put that precise number
22 on it.

1 **Q.** What would you say on average?

2 **A.** I don't know off the top of my head.

3 **Q.** Now, Mr. Marano, in his testimony, talks

4 about the need for a ramp up for investment over a

5 5-year period. Is that still the case for the

6 Companies proposed acceleration?

7 **A.** Say that again, I'm sorry.

8 **Q.** There would be a 5-year ramp up for

9 investment related to the accelerated program?

10 **A.** The testimony that Mr. Marano has presented

11 is, at this point, our best estimate of what -- his

12 best estimate of what we would need to do to

13 accelerate the cast iron main replacement.

14 **Q.** And is it still the Company's position that

15 the program would begin in January 2011?

16 **A.** I would hate to put a precise date on when

17 it would begin. I imagine, depending on the

18 outcome of this case, and depending on the economic

19 situation, a number of factors, that date may be

20 sooner or later.

21 **Q.** Now, under the Company's proposal, even if

22 the Commission approves Rider ICR, the Company

1 wouldn't necessarily commit to accelerating
2 infrastructure, would it?

3 **A.** There is a number of factors that would
4 affect whether or not the Company accelerates a
5 program. Approval of Rider ICR is one of them.

6 **Q.** But approval of the rider, in and of
7 itself, would not necessarily dictate the pace or,
8 in fact, whether or not the acceleration would
9 occur; is that correct?

10 **A.** That's correct.

11 **Q.** So is it the Company's position that it
12 will retain authority over the pace of
13 acceleration, if it occurs at all, regardless of
14 approval -- whether approval of the rider occurs?

15 **A.** Yes.

16 **Q.** Is it correct that Integris' regulated
17 subsidiaries, including Peoples Gas and North
18 Shore, are expected to file more frequently for
19 rate relief while focusing on cost control, actions
20 that if successful would provide incremental cash
21 flow and earnings?

22 MR. RATNASWAMY: I think I'll object to the

1 question to the extent it relates to utilities
2 other than the two Illinois gas utilities that are
3 parties to this case.

4 MS. LUSSON: I'll be happy to limit the question
5 to Peoples Gas and North Shore.

6 THE WITNESS: So could you repeat the question?

7 BY MS. LUSSON:

8 Q. Sure. Is it correct that Integris'
9 regulated subsidiaries, and for purposes of this
10 question I'm referring to Peoples Gas and North
11 Shore, are expected to file more frequently for
12 rate relief in the coming years?

13 A. I guess I would wonder what is meant by
14 more frequently, more frequently than what?

15 Q. Well, let's -- in, for example, the last
16 rate was was filed in 2007; is that correct?

17 A. Correct.

18 Q. And the rate -- the last rate case prior to
19 that, I believe, was some --

20 A. 1995.

21 Q. Now this case was filed in 2009. Do you
22 know, is there a -- have discussions occurred

1 within the Company, within Integris, related to
2 these companies, Peoples and North Shore, as to
3 whether or not a regular rate case filing strategy
4 is to be expected by Illinois regulators?

5 MR. RATNASWAMY: Your Honor, I'm concerned about
6 the extent to which, if any, this question might
7 call for material information under the securities
8 laws that isn't public. If the question can be
9 limited to public information, Mr. Schott may be
10 able to answer, but otherwise I'm concerned about
11 that aspect of this.

12 JUDGE MORAN: And can the witness answer in the
13 public realm?

14 THE WITNESS: The Company -- Integris' position
15 with regard to its regulated utilities, including
16 Peoples Gas and North Shore Gas, is we expect to
17 earn our authorized return. And to the extent
18 revenues are insufficient for us to earn that
19 authorized return, we will file rate cases as
20 needed.

21 BY MS. LUSSON:

22 Q. And have you been a part of any discussions

1 or, to your knowledge, is it Integris' position or
2 Peoples Gas or North Shore's position, that
3 attempting to earn the Company's authorized return
4 requires regular rate filings in the near future?

5 MR. RATNASWAMY: Your Honor, I have the same
6 concern about that question in terms of whether it
7 calls for material nonpublic information under the
8 securities laws.

9 JUDGE MORAN: Okay, with that caveat, if the
10 witness can answer.

11 THE WITNESS: The frequency of rate cases depend
12 on a number of factors. For example, the
13 continuing availability of Rider VBA, that is
14 subject to appeal at this point. And if we don't
15 have Rider VBA, that would be an impact. If we get
16 Rider ICR, that would tend to reduce the need --
17 reduce the frequency of rate cases, if we
18 accelerate the program. Inflation, you know, what
19 is the rate of inflation going for, that also
20 drives the need for frequent rate cases.

21 BY MS. LUSSON:

22 Q. Is it your position, Mr. Schott, that if

1 the Company accelerates infrastructure and embarks
2 on its accelerated infrastructure program, that the
3 Company's overall revenue requirements would not
4 increase through the year 2030, associated with
5 that accelerated infrastructure program?

6 **A.** No.

7 **Q.** So it's the Company's position that if the
8 accelerated infrastructure program is approved,
9 that its need for revenue relief, rate relief, will
10 not be affected?

11 **A.** If I could clarify the question, if Rider
12 ICR is approved.

13 **Q.** Um-hmm.

14 **A.** So you said if the acceleration is
15 approved. If Rider ICR is approved, is that your
16 question?

17 **Q.** Let me rephrase the question. Is it the
18 Company's position that if an accelerated
19 infrastructure program is approved, along the
20 linings that the Company seeks, in other words a
21 completion date of 2030; is that correct?

22 **A.** But we're not asking for approval of the

1 acceleration. You keep saying, if the acceleration
2 is approved, and we're not asking for approval of
3 the acceleration. We are asking for approval of
4 Rider ICR.

5 Q. So the Company's testimony in this case,
6 though, isn't it, under Mr. Marano's testimony,
7 that the preferred accelerated schedule would
8 run -- place infrastructure acceleration
9 replacements from the, I think 2055 time frame, to
10 a 2030 time frame; is that correct?

11 A. That's correct.

12 Q. Is it your testimony that if that
13 accelerated plan was adopted and the Company
14 completed infrastructure replacement by 2030, that
15 its overall revenue requirement need would not be
16 affected?

17 A. No, that is not our position.

18 Q. Okay. Would you agree that even with the
19 adoption of Rider ICR, the Company's need and
20 adoption of the accelerated plan with a completion
21 date of 2030, that the Company's need for -- that
22 the Company's overall revenue requirement will

1 increase?

2 **A.** All other things being equal, yes.

3 **Q.** So is it correct that if the Commission
4 approves an acceleration plan for this Company,
5 whether in this proceeding or in another
6 proceeding, that sets an end date of 2030, that --
7 and approves Rider ICR, that those actions, in and
8 of itself, would not diminish the Company's need
9 for rate relief, merely because of the adoption of
10 Rider ICR?

11 **A.** Say that again.

12 **Q.** Let me strike that question. Is it the
13 Company's position that if it obtains Rider ICR,
14 that it will not -- that it will definitely affect
15 the Company's decision as to when or when not -- as
16 to when the next time it comes in for a rate case?

17 **A.** If the Commission approves Rider ICR, will
18 that have an impact on the Company's decision to
19 file a rate case in the future, is that the
20 question.

21 **Q.** Yes.

22 **A.** And the answer is it will have an impact,

1 yes.

2 Q. Will it eliminate, to the extent that, I
3 think earlier you stated that the overall revenue
4 requirement need of the Company increases if the
5 accelerated main infrastructure program is adopted;
6 is that right?

7 A. That's correct. All other things being
8 equal, yes.

9 Q. You would agree, wouldn't you, that a rate
10 case presents the Commission with an opportunity to
11 review all of the Company's expenses and revenues
12 on a test year basis?

13 A. Yes, I would.

14 Q. And to the extent that the test year
15 recognizes changes in or additions to plant, the
16 test year process also captures the efficiency
17 that -- efficiencies that reduce operating costs
18 associated with new plant investment?

19 A. To the extent they are forecasted
20 accurately, yes.

21 Q. And if a historical test year is used,
22 those efficiencies would be translated in that

1 testimony year, wouldn't they?

2 **A.** In a historical test year, yes, for that
3 history, yes.

4 **Q.** If you could turn to Page 11 and 12 of your
5 surrebuttal testimony.

6 **A.** Yes.

7 **Q.** At the bottom of the page there, you
8 critique Mr. Rubin's Exhibit 6.05. Do you see
9 that?

10 **A.** Yes, I do.

11 **Q.** You say that the problem with the exhibit
12 is that the model assumes that absent Rider ICR,
13 the cost of the Company's infrastructure investment
14 immediately becomes part of its rate base. Is that
15 your testimony?

16 **A.** That's -- yes.

17 **Q.** And is it correct that you state that this
18 would occur only after Peoples Gas filed. And
19 completed a rate case and that Mr. Rubin's model
20 assumes annual rate case filings and under that
21 scenario ratepayers would bear the costs of each of
22 those rate cases; is that right?

1 **A.** That's correct.

2 **Q.** And you estimate those costs to be about
3 \$3 million each?

4 **A.** Yes.

5 **Q.** So is it your testimony, then, that
6 \$3 million annually should be added as costs to
7 Mr. Rubin's Exhibit 6.05?

8 **A.** Yes.

9 **Q.** Any other costs that you believe should be
10 added?

11 **A.** No.

12 **Q.** Mr. Schott, I'm going to show you what I'm
13 going to mark as AG Cross Exhibit 1 and AG Cross
14 Exhibit 2.

15 (Whereupon, AG Cross
16 Exhibits Nos. 1 and 2 were
17 marked for identification
18 as of this date.)

19 BY MS. LUSSON:

20 **Q.** Mr. Schott, AG's Cross Exhibit 1 was the
21 Company's response to AG Data Request 2.09. Was
22 this response prepared by you or under your

1 supervision?

2 A. Yes.

3 Q. And AG Cross Exhibit 2 was the Company's
4 response to AG 8.01. Was this response prepared by
5 you or under your supervision?

6 A. Yes.

7 MS. LUSSON: I have no further cross of
8 Mr. Schott and I would move for admission of AG
9 Cross Exhibits 1 and 2.

10 JUDGE MORAN: What is the relevance?

11 MS. LUSSON: The relevance is that Mr. Schott, in
12 his direct testimony, talks about the number of
13 long-term, high paying jobs for skilled workers
14 with and without Rider ICR. And this explores
15 information that the Companies provided regarding
16 jobs.

17 JUDGE MORAN: But the thing is you can't -- you
18 are trying to make a direct case here, it seems,
19 through this witness and you have to make a case
20 through your own witness. You're not using this to
21 contradict or supplement.

22 MS. LUSSON: Well, I'll be happy to ask him some

1 more, questions, your Honor.

2 JUDGE MORAN: It makes no sense to us right now.

3 BY MS. LUSSON:

4 Q. Mr. Schott, at Page 14 of your direct
5 testimony at Lines 284 and 282. You state the
6 investment in infrastructure --

7 A. Okay, I'm there.

8 Q. You state the investment in infrastructure
9 is seen as a key to jump starting the economy by
10 creating high paid, long-term jobs for skilled
11 workers; is that correct?

12 A. Yes.

13 Q. Now, AG Cross Exhibit 1 asked you for
14 analyses that you had in your possession while
15 preparing your testimony that compare the number of
16 long-term, high paying jobs for skilled workers,
17 with and without Rider ICR; is that correct?

18 A. Yes.

19 Q. And is it correct that it's the Company's
20 position that it will not implement an accelerated
21 infrastructure plan without Rider ICR?

22 A. No, that is not the Company's position.

1 **Q.** Is it the Company's position that it would
2 prefer having Rider ICR before it engages in an
3 accelerated infrastructure replacement plan?

4 **A.** Yes.

5 **Q.** Is it the Company's position that Rider ICR
6 will assist them in financing an accelerated
7 infrastructure replacement plan?

8 **A.** I'm not sure I would say assist us in
9 financing. I would say it would incentivize or
10 encourage us to accelerate the -- accelerate the
11 program.

12 **Q.** And incentivize or encourage financially?

13 **A.** Yes.

14 **Q.** In AG Cross Exhibit 2 -- going back to AG
15 Cross Exhibit 1, is it correct that you state,
16 Mr. Schott did not have any analyses in his
17 possession while preparing his testimony that
18 compared the number of long-term, high paying jobs
19 for skilled workers with or without Rider ICR?

20 **A.** That's correct.

21 **Q.** Is it also the Company's position that it
22 is not the intention of the Company to hire

1 additional employees to complete all the work that
2 would be funded by Rider ICR?

3 **A.** Not all the work.

4 **Q.** AG Cross Exhibit 8.02 -- AG Cross Exhibit 2
5 is the Company's response to 8.01. Do you have
6 that in front of you?

7 **A.** Yes.

8 **Q.** Now, AG 8.01 explores the Company's
9 position with respect to Rider ICR and its affect
10 on employee levels. Would you agree?

11 **A.** Yes.

12 **Q.** And is the testimony -- is the response
13 that you provided to this data request still true
14 today?

15 **A.** No changes to it.

16 MS. LUSSON: Your Honor, I would move for the
17 admission of AG Cross Exhibits 1 and 2.

18 JUDGE MORAN: Any objections? Hearing none, they
19 are admitted and that will be designated AG Cross
20 Schott Exhibit 1 and AG Cross Schott Exhibit 2.

21

22

1 (Whereupon, AG Cross
2 Exhibits Nos. 1 and 2 were
3 admitted into evidence as
4 of this date.)

5 MS. LUSSON: Thank you, Mr. Schott.

6 THE WITNESS: Thank you.

7 JUDGE MORAN: And the parties will follow this
8 numbering system. It's the party doing the cross,
9 the word cross and whatever witness you are
10 crossing at the time and the numbers will follow in
11 sequence.

12 CROSS EXAMINATION

13 BY

14 MR. TOWNSEND:

15 Q. Good morning, Mr. Schott?

16 A. Good morning.

17 Q. I'm Christopher J. Townsend from the law
18 firm of DLA Piper, LLP, US, on behalf of Interstate
19 Gas Supply of Illinois, Inc., a member of the
20 Retail Gas Suppliers. Are you familiar with the
21 Retail Gas Suppliers, Mr. Schott?

22 A. I am aware of where they do business.

1 **Q.** You are familiar with the group the Retail
2 Gas Suppliers as participants in this proceeding,
3 correct?

4 **A.** Yes.

5 **Q.** And you know that the Retail Gas Suppliers
6 include Interstate Gas Supply of Illinois, Inc.,
7 Dominion Retail, Inc., and Nicor Advanced Energy,
8 Inc., correct?

9 **A.** I'll take your word for it.

10 **Q.** You understand that these companies are
11 alternative suppliers of the commodity of natural
12 gas in the Companies service territories?

13 **A.** Yes.

14 **Q.** And they provide alternative supply to
15 residential and small commercial customers through
16 a program that Peoples and North Shore call, quote,
17 Choices For You, close quote?

18 **A.** Yes.

19 **Q.** And are you generally familiar with the
20 various service offerings that the companies
21 offered to customers?

22 **A.** No, I am not.

1 **Q.** Are you familiar with the Choices For You
2 Program?

3 **A.** I am aware of it. I am not familiar with
4 the details of it.

5 **Q.** Would you agree that under traditional
6 utility service, customers buy the commodity of
7 natural gas from Peoples or North Shore under a
8 regulated rate that is reflected in the Companies'
9 purchased gas adjustment or PGA mechanism?

10 **A.** Yes.

11 **Q.** Would you agree that the Choices For You
12 Program -- strike that.

13 Would you agree that under the Choices
14 For You Program, the small commercial and
15 residential customers have the options to leave the
16 PGA rate and instead purchase the commodity of
17 natural gas from an alternative supplier?

18 MR. RATNASWAMY: I'm going to object on two
19 grounds, your Honor. One is relevance and the
20 other is it's beyond the scope of his testimony. I
21 don't think he ever mentions the program.

22 JUDGE MORAN: I don't think that's true, either.

1 MR. TOWNSEND: I agree with you, your Honor. But
2 he is the most senior executive that's presented by
3 the Companies and I think that it is relevant as to
4 what the knowledge of the most senior executive,
5 someone who has the title of vice president of
6 regulatory affairs, what knowledge he has about the
7 Choices For You Program or the lack of knowledge
8 that he has. It seems to suggest that perhaps the
9 Companies haven't really focused on Choices For
10 You, a point that the Retail Gas Suppliers make
11 throughout their testimony.

12 And so if we go through this cross
13 examination and this most senior executive
14 continues to say that he doesn't know various
15 things about it, it shows a lack of knowledge at
16 the very top for the top witness that's been
17 introduced in the case.

18 JUDGE MORAN: I'm going to allow you a little
19 leeway on this, provided you can tie it up to
20 something of substance here. I'm not going to
21 allow you to embarrass the witness.

22 MR. TOWNSEND: And I appreciate that. And it

1 really, this is just the beginning of cross
2 examination, for everyone to make sure that we have
3 the common understanding of what the Choices For
4 You Program is.

5 MR. RATNASWAMY: Your Honor, for the record, may
6 I have a continuing objection because I do not
7 think it is appropriate to cross examine, outside
8 the scope of testimony, lead witness to try to show
9 his ignorance of something that other witnesses in
10 the case are the experts on.

11 BY MR. TOWNSEND:

12 Q. You would agree, Mr. Schott, that customers
13 can shop among various different commission
14 approved alternative suppliers to see if they want
15 to use one of those alternative suppliers, correct?

16 A. Yes.

17 Q. Or the customer can remain with Peoples or
18 North Shore and take the traditional utility
19 service, right?

20 A. Yes.

21 Q. Just to be clear, if a customer decides to
22 sign up for gas supply with an alternative gas

1 supplier, the customer continues to receive its
2 natural gas through the physical facilities that
3 are owned by the Companies, right?

4 **A.** Yes.

5 **Q.** What the customer's buying from an
6 alternative supplier is the natural gas itself, but
7 the customer continues to also pay Peoples and
8 North Shore each month for the non supply assets
9 and services that the Companies provide, correct?

10 **A.** Yes.

11 **Q.** Would you agree that the terms and
12 conditions set forth in the Peoples and North Shore
13 tariffs related to the Choices For You Program
14 affect the products and services that the suppliers
15 can offers to customers?

16 **A.** Could you repeat the question?

17 **Q.** Yes. Would you agree that the terms and
18 conditions set forth in the Companies tariffs
19 relating to the Choices For You Program affect the
20 products and the services that the alternative
21 suppliers can offer to customers?

22 **A.** I would be speculating on what the

1 supplier -- what the alternative suppliers do. I
2 don't feel that I can do that.

3 JUDGE MORAN: And there are better witnesses that
4 can address that question?

5 THE WITNESS: I would assume -- he's asking me
6 how the suppliers act and I'm not a supplier, we're
7 with Peoples Gas.

8

9 (Change of reporter.)

10

11 Q. Do those tariffs impact things such as the
12 storage delivery tolerances and various charges to
13 alternative suppliers?

14 A. I'm sorry, repeat the question again.

15 MR. RATNASWAMY: Do those tariffs --

16 JUDGE MORAN: Okay. Which tariffs now?

17 BY MR. TOWNSEND:

18 Q. Do the Choices For You tariffs relate to
19 items like use of storage, delivery tolerances and
20 various charges related to the supply services
21 offered by alternative suppliers?

22 A. That is my understanding, yes.

1 **Q.** Now, you're testifying today on behalf of
2 both Peoples Gas and North Shore Gas; correct?

3 **A.** That is correct.

4 **Q.** And you're vice president for regulatory
5 affairs for both Peoples Gas and North Shore Gas;
6 correct?

7 **A.** That is correct.

8 **Q.** And it is fair to say that you are the most
9 senior executive from Peoples Gas and North Shore
10 Gas testifying on behalf of the Companies in this
11 proceeding; correct?

12 **A.** Yes.

13 **Q.** Now, unless I specify otherwise, please
14 assume that my questions relate to both Peoples Gas
15 and North Shore Gas. All right?

16 **A.** Okay.

17 **Q.** And when I refer to "the Companies," I'm
18 referring to both Peoples and North Shore. All
19 right?

20 **A.** Okay.

21 **Q.** And unless you specify otherwise in your
22 answer, I will assume for the record that your

1 answers apply to both Peoples and North Shore. All
2 right?

3 A. Okay.

4 Q. Do we have an agreement?

5 A. Yes. Yes.

6 Q. Thank you. Now, as vice president for
7 regulatory affairs for Peoples and North Shore Gas,
8 you're familiar with the operations of both
9 companies; correct?

10 A. Familiar? I have a basic understanding.

11 Q. And just to establish some basic
12 understanding of the Companies' outlook on treating
13 customers, you would agree, wouldn't you, that all
14 customers should be treated fairly and equally;
15 correct?

16 MR. RATNASWAMY: Actually, I'm going to object
17 to the compound nature of the question.

18 BY MR. TOWNSEND:

19 Q. If you needed to distinguish between those,
20 please do. Do you think that customers should be
21 treated fairly?

22 A. Yes.

1 **Q.** Do you think they should be treated
2 equally?

3 **A.** That's a harder question. Equal -- there's
4 number of factors that can determine equality and
5 equality could be in the eyes of the beholder.

6 **Q.** All else being equal, though, you think
7 that customers should be treated equally? As a
8 general principle, you would agree that the
9 Companies shouldn't be discriminating against one
10 customer versus another without a rationale;
11 correct?

12 **A.** I agree we shouldn't discriminate against
13 customers. I don't agree that they should be
14 treated equally. There's a number of factors. I
15 mean, the high-use customer would pay more than a
16 low-use customer. So is that equal? I don't know.

17 **Q.** But similarly situated customers should be
18 treated equally; correct?

19 JUDGE MORAN: You know, that term is open to so
20 much interpretation, debate and philosophy that I
21 don't think we're going to get anywhere with that.

22 MR. TOWNSEND: Okay.

1 JUDGE MORAN: If you have a specific example of
2 that, then you can ask the question.

3 BY MR. TOWNSEND:

4 Q. Would you agree that fair treatment of
5 customers means making sure that customers aren't
6 paying too much?

7 A. Aren't paying too much? I don't --

8 Q. If the Company has determined how much a
9 customer should pay, it wouldn't be appropriate for
10 the Company to charge more than that; correct?

11 A. We should charge based on our tariffs
12 and for cha- -- yes.

13 Q. And your tariffs should be based upon
14 costs; correct?

15 A. Yes.

16 Q. Would you agree that if some customers are
17 paying too little for some of the costs, that means
18 that other customers are paying too much; right?

19 A. Again, I start with the definition of "too
20 little," how you are defining "too little".

21 Q. Would you agree that there should not be
22 unfair cost subsidization between customers?

1 **A.** Do I agree there should not be unfair cost
2 subsidization amongst customers? Yes, I agree.

3 **Q.** You would agree that the Choices For You
4 customers, for example, should not be
5 cross-subsidizing customers who take traditional
6 utility service under the PGA; correct?

7 MR. RATNASWAMY: Your Honors, I admit my count
8 is imperfect, but I think we're something --
9 approaching 20 questions into this line of cross
10 which still does not seem to me to be within the
11 scope of his testimony.

12 JUDGE MORAN: I am a little troubled by that.
13 Is there anything that you can relate to, in your
14 cross-examination, that deals with the testimony of
15 Mr. Schott?

16 MR. TOWNSEND: Sure. Your Honors, I think that
17 this witness actually does provide kind of that
18 broad brush overview of the Companies' position.
19 If you look even at his direct testimony --

20 JUDGE MORAN: Well, no. What can you point me
21 to --

22 MR. TOWNSEND: That's --

1 JUDGE MORAN: -- in the direct testimony.

2 MR. TOWNSEND: If you take a look at the purpose
3 of his direct testimony which is at Lines 12 to 16
4 of his direct testimony, he talks about the reasons
5 for the rate design and tariff changes. So he's
6 talking about why it is that they have designed the
7 rates the way that they have for purposes of this
8 proceeding.

9 JUDGE MORAN: But he's actually -- the witness
10 is only summarizing. He's the scope witness.

11 MR. TOWNSEND: Well, he summarizes the reasons,
12 though, and he is the face of the Company. He's
13 the most senior executive talking about the reasons
14 for the rate design that are being presented here.

15 JUDGE MORAN: But aren't there better witnesses
16 that can get you to the meat of what you're trying
17 to accomplish here?

18 MR. TOWNSEND: Perhaps other witnesses could
19 answer that, but they wouldn't be the most senior
20 witness that the Companies presenting with regards
21 to what -- why is it that you've designed the rates
22 the way that you have? We've got a real problem

1 with the reason that -- with the way in which
2 they've designed the rates. The retail gas
3 suppliers have pointed out all sorts of problems --

4 JUDGE MORAN: Yes. And you have your own
5 witnesses on that. What I'm trying to get to is
6 the heart and the core of the subject matter here
7 without a lot of these philosophical types of
8 questions that we could be here forever. So what
9 can you question the witness on that is in his
10 testimony that is unclear, that you don't
11 understand or that you want an explanation for?

12 MR. TOWNSEND: Well, I'm really trying to get at
13 why it is they designed the rates the way that they
14 did and what their corporate philosophy is in terms
15 of designing the rates and that's what I understand
16 that this witness is best able to do, is talk about
17 the corporate philosophy and, you know, bring it
18 above just someone who is implementing the rates;
19 but instead, talk about the way in which the
20 Company approaches some of these issues and so it
21 does the Company value something like
22 cross-subsidization and the witness has indicated

1 that that is inappropriate. That's something that
2 this witness is best designed to be able to speak
3 for the Company about.

4 JUDGE MORAN: I'm going to allow you a little
5 more leeway, but I want you to point the witness to
6 any remarks in his testimony that you have a
7 substantive question on. We all know what's good.
8 We all know what's bad.

9 MR. TOWNSEND: But that really -- that does go
10 to the heart of the question. If I may introduce
11 an exhibit, perhaps I can short circuit some of
12 this and we'll see if -- again, this may draw
13 another objection, but it seems that this might be
14 a better way to be a little bit more focused about
15 these issues.

16 JUDGE MORAN: And this is?

17 MR. TOWNSEND: This is the Peoples Gas --

18 JUDGE MORAN: RGS Cross Exhibit Schott No. 3.

19 (Whereupon, RGS Cross
20 Exhibit No. 3 was
21 marked for identification
22 as of this date.)

1 BY MR. TOWNSEND:

2 Q. Have you had an opportunity to review that,

3 Mr. Schott?

4 A. Yes.

5 Q. Are you familiar with the Companies'

6 corporate values?

7 A. Yes.

8 Q. And are you familiar with the -- generally

9 familiar with the Companies' Web sites?

10 A. I'd have to say no.

11 Q. Not even generally familiar with them?

12 A. No.

13 Q. Are you aware that the Peoples Gas Web site

14 is PeoplesGasdelivery.com?

15 A. Yes.

16 Q. And is it your understanding that the

17 vision, missions and values of Peoples Gas are

18 located on the Company's web site?

19 A. I'm not aware of it. It appears, based on

20 this exhibit, that they are, yes.

21 JUDGE MORAN: So are you familiar with this

22 exhibit at all?

1 THE WITNESS: I'm familiar with all the
2 information contained in it, that it's a Web -- a
3 page on our Web Site. I think it's great, but I
4 didn't, no, that's for sure.

5 BY MR. TOWNSEND:

6 Q. Would you agree that the Company's values
7 specifically talk about service to customers
8 states, That we focus on creative solutions to meet
9 and exceed our customers' expectations?

10 A. Yes.

11 Q. And, obviously, fair treatment is a
12 reasonable customer expectation; right?

13 A. Yes.

14 Q. Do the Companies view alternative gas
15 suppliers as customers of the Companies or as
16 competitors?

17 MR. RATNASWAMY: I object to the relevance and
18 beyond the scope of his testimony again.

19 MR. TOWNSEND: Who else can I ask --

20 JUDGE MORAN: You know what, it sort of seems --
21 and we've kind of been feeling this trend, that you
22 are trying to make a direct case out of this

1 witnesses cross-examination, yes, because this is
2 all stuff that could have been put on by your
3 witnesses.

4 MR. TOWNSEND: I don't know.

5 JUDGE MORAN: This is not based on this
6 witnesses testimony. He doesn't mention a Web
7 Site. He doesn't mention any --

8 MR. TOWNSEND: But this witness is the best
9 witness to know what the -- how the Companies view
10 alternative gas suppliers. What's the corporate
11 philosophy? Do they -- when they say that they
12 value -- they value their customers, do they value
13 alternative gas suppliers? Our witness doesn't
14 know that, that's not a direct case that we can
15 make.

16 JUDGE MORAN: And that is -- certainly that
17 could have been asked in discovery if you wanted to
18 explore those kinds of things.

19 MR. TOWNSEND: But if it's okay for discovery,
20 then it's certainly okay for cross-examination.

21 JUDGE MORAN: No, it's not, because then you
22 could have made it in your case. You seem to be

1 wanting to make -- build a case, a direct case on
2 cross-examination and that just is not allowed.

3 MR. TOWNSEND: It's not something that our
4 witness would know.

5 JUDGE MORAN: This witness prepared testimony.
6 He is here to explain that testimony, defend that
7 testimony or be impeached on that testimony, but
8 what we're having -- these questions don't seem to
9 be going to any of the purposes of this
10 examination.

11 MR. TOWNSEND: Again, your Honor, my
12 understanding is that this witness explains why it
13 is that the Companies designed the rate design the
14 way they did or at least they should know --

15 JUDGE MORAN: I don't think he does explain
16 that. I think that testimony comes in through
17 other witnesses. I've read the testimony and I see
18 it in other witnesses.

19 MR. TOWNSEND: Okay. Let -- I'll point to the
20 exact point in his testimony. Can we look at --
21 and, again, you're directing that we can't get an
22 answer to the question of how they view alternative

1 gas suppliers as customers or competitors?

2 JUDGE MORAN: You can ask that one question.

3 THE WITNESS: I would say neither. We view them

4 as agents of our customers.

5 BY MR. TOWNSEND:

6 Q. Do the Companies believe in the rate-making

7 principle that -- I'm sorry, let's turn to your

8 rebuttal testimony at Line 119 and let me know when

9 you're there, please.

10 A. Okay. I'm there.

11 Q. Do the Companies believe in the rate-making

12 principle that costs should be recovered from the

13 cost-causer?

14 MR. RATNASWAMY: I'm going to object, your

15 Honor. That question has no apparent relationship

16 to 190. Maybe I got the wrong number.

17 MR. SKEY: 119.

18 MR. RATNASWAMY: Oh, 119. Sorry.

19 BY MR. TOWNSEND:

20 Q. Line 119 of his rebuttal testimony,

21 JFS 2.0.

22 THE WITNESS: Could you repeat the question?

1 BY MR. TOWNSEND:

2 Q. Do the Companies believe in the rate-making
3 principle that costs should be recovered from the
4 cost-causer?

5 A. Yes.

6 Q. And do the Companies agree with the
7 corollary principle that those who pay for certain
8 goods or services should be eligible to receive the
9 benefit of those goods or services?

10 A. Could you repeat the question?

11 Q. Do the Companies agree with the corollary
12 of that principle, that those who pay for certain
13 goods or services should be eligible to receive the
14 benefit of those goods or services?

15 A. One, I don't think it's corollary, but our
16 customers pay to have gas delivered to their homes
17 and -- but breaking it down beyond that -- if you
18 are implying that -- I mean, that's what they paid
19 for in our base rates.

20 Q. And so there aren't specific goods or
21 services that the customers should be denied access
22 to; correct?

1 **A.** I'd have to see your definition of "goods
2 and services" that we might be denying them.

3 **Q.** For example, it wouldn't be appropriate to
4 entirely deny Choices For You customers access to
5 storage access; correct?

6 **MR. RATNASWAMY:** I'll object, your Honor. I
7 thought this was going to relate to -- now that I
8 understand the line numbers correctly -- 118 and
9 119, but I don't believe that question does.

10 **MR. TOWNSEND:** If someone is a cost-causer --
11 I'm trying to understand how the Company views that
12 phrase.

13 **JUDGE MORAN:** Okay. Then ask that question.

14 **MR. TOWNSEND:** This is -- that's what I'm trying
15 to get at. He asked for -- I thought that he was
16 looking for some kind of example and I tried to
17 provide an example to the witness. Would it be
18 appropriate under the cost causation principle to
19 deny Choices For You customers access to the
20 Companies' storage?

21 **JUDGE MORAN:** Under any circumstances? Under
22 certain circumstances? I don't know.

1 MR. TOWNSEND: Under any circumstance. Would
2 that be appropriate.

3 THE WITNESS: I'm sorry, one more time.

4 BY MR. TOWNSEND:

5 Q. Are there any circumstances under which it
6 would be appropriate to deny Choices For You
7 customers access to companies -- the Companies
8 storage assets?

9 A. I'm tempted to refer to Richard Dobson and
10 I do think he'd be able to answer the question
11 because I would have to put so many caveats around
12 it that he'd probably be better. I don't think I
13 can answer that question directly. I'd have to,
14 you know, what are the tariffs, under what -- you
15 know, under our tariffs, you know, if there is
16 tariff and they're willing to pay tariff rate for
17 that service, you know, no; but, you know, as long
18 as it's under the tariff, that's -- we can't deny
19 service under our tariff, but other than that, I'd
20 have to defer to Mr. Dobson.

21 Q. Would it be appropriate to design the
22 tariffs in a way that denied access to storage to

1 the Choices For You customers?

2 MR. RATNASWAMY: I object on the same grounds.

3 Again, now he's being asked whether it is

4 appropriate to design a transportation tariff in a

5 certain way and I do not see the connection to this

6 part or any other part of his testimony.

7 JUDGE MORAN: I don't see it in the testimony.

8 Either.

9 MR. TOWNSEND: I'll move on.

10 JUDGE MORAN: Sustained.

11 MR. TOWNSEND: I'll move on.

12 BY MR. TOWNSEND:

13 Q. Can you turn to your direct testimony?

14 Let's use the Peoples Gas exhibit, I think we have

15 similar testimony for North Shore. Look in Peoples

16 Gas at Page 9 and let me know when you're there.

17 JUDGE MORAN: Are we in the direct or the

18 rebuttal.

19 MR. TOWNSEND: I'm sorry, direct, your Honor.

20 THE WITNESS: I'm there.

21 JUDGE MORAN: Page 9?

22 MR. TOWNSEND: Yes.

1 THE WITNESS: I'm there.

2 BY MR. TOWNSEND:

3 Q. And there you talk about what is referred
4 to as the Companies' quote, need for rate relief;
5 correct?

6 A. Yes.

7 Q. And you use that phrase, quote, "need for
8 rate relief" throughout your testimony; correct?

9 A. More than once, yeah.

10 Q. And by "rate relief" in your testimony, you
11 actually mean raising of rates; correct?

12 A. Yes.

13 Q. Would you agree that another use of the
14 phrase "rate relief," perhaps the more common use,
15 relates to the idea of lowering rates to customers
16 for natural gas and other energy services?

17 A. I'm sure one could interpret that, yes.

18 Q. Okay. In other words for customers,
19 basically, rate relief means paying less for
20 natural gas service; right?

21 A. Sure. Yes.

22 Q. I'll refer to that as customer rate relief.

1 All right?

2 A. Okay.

3 Q. And there's nothing wrong with the

4 customers seeking out ways to pay less for natural

5 gas service; right?

6 A. Assuming it's justified, no.

7 Q. And there are several ways that a customer

8 could seek to pay less for natural service --

9 natural gas service; right? For example, the

10 Companies previously have sought approval of an

11 Energy Efficiency Program and that would result in

12 customer efficiency and paying less for natural gas

13 service; right?

14 A. Yes.

15 Q. And the Companies call that program, quote,

16 the Chicagoland Natural Gas Savings Program; right?

17 A. Yes.

18 Q. And you do provide testimony in this case,

19 in your direct and rebuttal testimony, about the

20 Chicagoland Natural Gas Savings Program; right?

21 A. Yes.

22 Q. And in your rebuttal testimony, you

1 described the various components of the Energy
2 Efficiency Program; right?

3 A. Yes.

4 Q. And the Energy Efficiency Program is
5 available to all residential and small business
6 customers; right?

7 A. Yes.

8 Q. It's generally available?

9 A. Yes. When you say "it's available,"
10 service -- programs are provided to those
11 customers, yes.

12 Q. There's no limit on the number of customers
13 who can take that service; correct?

14 A. "Take that service"?

15 Q. Take service underneath the Energy
16 Efficiency Program.

17 A. There's no service under the Energy
18 Efficiency Program. It's a program that provides
19 -- it's a program that provides funding for
20 programs that are run by the Chicagoland Natural
21 Gas Savings Governance Board.

22 Q. But it's not restricted to customers in any

1 particular location; right?

2 **A.** It's -- restricted to Peoples Gas and North
3 Shore customers, yes, and Class 1 and 2.

4 **Q.** And there's no limit on the number of
5 customers who can receive the benefits of the
6 Energy Efficiency Program; right?

7 **A.** "No limits"? I mean, there's so much
8 money. I mean -- what sort of limits you referring
9 to?

10 **Q.** All of the customers --

11 JUDGE MORAN: Why don't you just ask him the
12 direct question. Are there limits instead of in
13 that awkward form. I think you're not getting the
14 correct information out.

15 BY MR. TOWNSEND:

16 **Q.** Are there limits as to the customers in the
17 eligible rate classes as to their ability to be
18 able to participate in these programs?

19 **A.** I believe there's some programs that
20 apply -- that we focus on low-income customers and,
21 I mean, that was at the direction of the Commission
22 when they set up the program, again, restricted to

1 our customers. I mean, the programs themselves
2 have certain restrictions in them and limits and I
3 gave broad summaries and I'm not intimately
4 familiar with all those programs, but, you know
5 there are limits in those programs.

6 Q. Okay. The Chicagoland Natural Gas Savings
7 Program was approved by the Commission in the last
8 rate case of the Commission -- I'm sorry of the
9 Companies; correct?

10 A. The Energy Efficiency -- the Enhanced
11 Energy Program was approved by the Commission in
12 the last rate case, yes.

13 Q. And the Commission explicitly ruled that
14 the costs for the Energy Efficiency Program should
15 be borne by all customers through a rider
16 mechanism; correct?

17 A. All customers in those rate classes, yes.

18 Q. And, in fact, the cost recovery mechanism
19 for the Energy Efficiency Program was a contested
20 issue in that case; right?

21 A. Whether it should be recovered through base
22 rates or recovered through a rider mechanism, if

1 that's what you're referring to, yes, that was an
2 issue.

3 Q. Some parties questioned whether an Energy
4 Efficiency Program should be paid for by all
5 eligible customers because not all customers would
6 take service underneath the Energy Efficiency
7 Program; right?

8 A. Again, you don't take service under the
9 Energy Efficiency Program.

10 Q. Do you recall the Commission's order in
11 those rate cases?

12 A. It was a year -- a year ago and a half ago.

13 Q. Is there something I can present to you
14 that would help refresh your recollection?

15 A. It depends on the question.

16 Q. If I --

17 JUDGE MORAN: You want to show --

18 MR. TOWNSEND: May approach?

19 JUDGE MORAN: You want to approach the witness,
20 you want to show the witness something, you need to
21 identify what that is.

22 MR. TOWNSEND: We'll label this RGS Cross

1 Exhibit Schott 4.

2 (Whereupon, RGS Cross Schott
3 Exhibit No. 41 was
4 marked for identification
5 as of this date.)

6 JUDGE MORAN: And then identify what that
7 reflects.

8 MR. TOWNSEND: This is an excerpt from the order
9 in the prior rates cases.

10 JUDGE MORAN: As I see it, it's four pages,
11 Pages 163, 164 and then 183 and 184 with the cover
12 sheet identifying the order entered on
13 February 5th, 2008.

14 BY MR. TOWNSEND:

15 Q. I direct your attention to the paragraph
16 that begins at the bottom of Page 163 and goes to
17 the top of Page 164. Let me know when you've had a
18 chance to review it.

19 A. I read the paragraph.

20 Q. So would you -- having taken a look at that
21 now, would you agree that in -- do you recall that
22 in that case, there were some parties who claimed

1 that the Chicagoland Natural Gas Savings Program
2 would be unfair because not every one will
3 necessarily participate?

4 **A.** Again, I'm reading the Judges' summary of
5 the positions, so based on this, that would be the
6 case, yes.

7 **Q.** And in that case, the Companies' view was
8 that that was a small argument; right? That it was
9 a small objection to the program because the order
10 indicates that many things work this way, including
11 most everything paid for by taxes; right?

12 **A.** I'm assuming that the judges did a careful
13 summary of our position in the last case and so I
14 would say yes.

15 **Q.** And they conclude there that the position
16 of the utilities was that given all the positive
17 effects of a well-designed Energy Efficiency
18 Program, the utilities argue it should not be
19 considered so as -- so unfair as to be not worth
20 undertaking as long as the benefits are equally
21 available to all customers; correct? And that was
22 the Companies' position; right?

1 **A.** Could you say that the question again,
2 please.

3 **Q.** Was it the Companies' position that where
4 benefits are equally available to all customers,
5 the program should be paid for by all eligible
6 customers?

7 MR. RATNASWAMY: I'm sorry, is there language
8 here about who should pay for it? I'm not seeing
9 it.

10 MR. TOWNSEND: That's what that paragraph --
11 that's what that paragraph discusses, that it would
12 be unfair for every one to pay for it because not
13 every one will participate.

14 THE WITNESS: Again, as my Counsel points out,
15 the concept of paid -- taxes paid...

16 MR. TOWNSEND: I'm sorry, I didn't hear you.

17 THE WITNESS: I mean, the term "pay" is not --
18 except in that one sentence where it -- referring
19 to taxes, it doesn't pay -- yes.

20 BY MR. TOWNSEND:

21 **Q.** Just so we're clear, the Companies'
22 position was that because the benefits are equally

1 available to all customers, the program should be
2 paid for by all eligible customers; correct?

3 **A.** No. No. I don't think that's the
4 Companies' position. The Companies' position was
5 it can benefit all customers and, therefore, it
6 should be recoverable in the rates.

7 **Q.** From all eligible customers, not just from
8 those customers who took service underneath the
9 program; right?

10 JUDGE MORAN: You are talking about -- what do
11 you mean by "service under the program?"

12 MR. TOWNSEND: Who actually took advantage of
13 some of the benefits offered by the program.

14 JUDGE MORAN: Okay. That's different than
15 service because you were confusing gas service
16 with --

17 MR. TOWNSEND: With Energy Efficiency Service?

18 JUDGE MORAN: Yes. Because Energy Efficiency is
19 not a service, it's an opportunity or a program.

20 MR. TOWNSEND: So let me rephrase -- I
21 appreciate that, your Honor.

22 BY MR. TOWNSEND:

1 **Q.** So the Companies' position was that where
2 the benefits of the program are equally available
3 to all customers, the program should be paid for by
4 all customers?

5 **A.** The issue of who should pay for it, I
6 don't -- I don't recall that as an issue. I mean,
7 the question is whether we should have the programs
8 or not, not who should pay for them and I suppose
9 maybe that's implied, but that wasn't an explicit
10 issue.

11 **Q.** Well, is it the Companies' position that
12 the Chicagoland Natural Gas Savings Program should
13 be paid for by all customers?

14 **MR. RATNASWAMY:** I'll object, your Honor -- your
15 Honors, I believe it's beyond the scope of his
16 testimony and not relevant. The order in --

17 **JUDGE MORAN:** It's beyond the scope. I'm going
18 to sustain on that basis but the thing is, you have
19 everything you need to make that argument if you
20 want to. If there's stuff in an order, you can
21 already make the argument, you don't need the
22 witness to tell you what's in there or is not in

1 there. The thing speaks for itself.

2 MR. TOWNSEND: And I think my question actually
3 went back to the Companies' position and not what
4 the order said. I think that -- perhaps if I
5 rephrase then --

6 JUDGE MORAN: But that's almost unfair to this
7 witness to talk about what the Companies' was two
8 and a half years ago without any warning. I was on
9 this case and I don't remember it. Okay?

10 MR. TOWNSEND: This --

11 JUDGE MORAN: Without a full reading of the
12 order --

13 MR. TOWNSEND: This is the witness that talks
14 about the Chicagoland Natural Gas Savings Program,
15 there's no other witness that talks about it. I'm
16 trying to understand what the Companies' position
17 is with regards to who should be charged for that
18 program.

19 MR. RATNASWAMY: May I respond to that, your
20 Honor?

21 JUDGE MORAN: Yeah.

22 MR. RATNASWAMY: The last order differentiated

1 between the merits of the program and the rate or
2 tariffs associated with it as is shown in
3 Mr. Townsend's exhibit. Now, in this case, all
4 Mr. Schott has talked about in his testimony is the
5 program. He's -- I don't think said one word about
6 the tariffs or how they are or should be designed.
7 And that, the question relates to the tariffs.

8 MR. TOWNSEND: He's sponsoring the Companies'
9 position with regards to this program.

10 JUDGE MORAN: Sustained.

11 BY MR. TOWNSEND:

12 Q. Do the Companies continue to support the
13 rate design of the Chicago Natural Gas Savings
14 Program (sic)? Is there anything in the testimony
15 that suggests that there should be a change in this
16 case?

17 MR. RATNASWAMY: Your Honors, I object. He just
18 said two different questions.

19 JUDGE MORAN: Okay.

20 BY MR. TOWNSEND:

21 Q. First question --

22 JUDGE MORAN: If there's two questions, then

1 please break them up.

2 Go ahead.

3 BY MR. TOWNSEND:

4 Q. Do the Companies continue to support the
5 rate design of the Chicagoland Natural Gas Savings
6 Program?

7 MR. RATNASWAMY: I object, your Honors. The
8 program doesn't have a rate design, the tariffs do.

9 JUDGE MORAN: Yeah.

10 BY MR. TOWNSEND:

11 Q. Do the Companies continue to support the
12 rate design of the tariffs used to implement the
13 Chicagoland Gas Savings Program?

14 A. The Companies have not recommended any
15 changes to that in this rate case.

16 Q. And so is the answer yes, you continue to
17 support the rate design of those tariffs?

18 JUDGE MORAN: It's the same --

19 MR. TOWNSEND: I didn't know if he was trying to
20 draw a distinction.

21 JUDGE MORAN: Okay. I will let the...

22 THE WITNESS: Repeat the question one more time.

1 JUDGE MORAN: And maybe what do you mean by
2 "support"?

3 THE WITNESS: And "rate design".

4 JUDGE MORAN: Yeah.

5 BY MR. TOWNSEND:

6 Q. Well, I guess, you can go ahead and define,
7 however you'd like, the support or rate design in
8 your answer; but let me ask -- and please do, if
9 there's nuances that I'm missing here.

10 JUDGE MORAN: I mean, I'm just failing to see
11 what -- how your question is different from the
12 response. Because if you're asking if he fails to
13 support and he's telling you that we haven't asked
14 for a change, then, yeah, I think that pretty much
15 answers your question. If you are using "support"
16 with the idea of wanting a change to the status
17 quo.

18 BY MR. TOWNSEND:

19 Q. Would you agree with that, Mr. Schott?

20 A. Again we haven't taken a position for or
21 against, so -- in this rate case.

22 Q. Now, participating in the Chicagoland

1 Natural Gas Savings Program is one of the ways that
2 customers might achieve what I've called customer
3 rate relief; right?

4 **A.** Taking advantage of the programs that are
5 sponsored by the Chicagoland Program would enable
6 our customers to reduce their bills, yes. It would
7 not affect their rates, it would affect their
8 bills.

9 **Q.** And we briefly discussed the fact that the
10 Choices For You Program likewise might allow
11 customers to a chief customer rate relief; correct?

12 **A.** Might allow them to lower their bills.

13 **Q.** Are you aware that the Companies charge a
14 separate administrative charge to each alternative
15 supplier for each customer that decides to go into
16 the Choices For You Program?

17 MR. RATNASWAMY: Your Honors, I object as to the
18 relevance and beyond the scope of his testimony.

19 MR. TOWNSEND: What we're doing here, your
20 Honors, is drawing a comparison between a program
21 that this witness presents testimony about and a
22 program that someone else presents testimony about.

1 It's a high-level question I'm just asking him to
2 compare the two.

3 JUDGE MORAN: The witness can answer if he
4 knows.

5 THE WITNESS: Can you repeat the question?

6 BY MR. TOWNSEND:

7 Q. Are you aware that the Companies charge a
8 separate administrative charge to each alternative
9 supplier for each customer that decides to go into
10 the Choices For You Program?

11 A. I'm aware there's an administrative charge
12 and how that applies and I'm not aware of the
13 details of how that applies and who it applies.

14 Q. Would you be willing to accept, subject to
15 check, that the Companies charge that
16 administrative charge only to the customers that
17 decide to go into the customer Choices For You
18 Program?

19 MR. RATNASWAMY: Your Honors, I object. He's
20 now being asked to accept, subject to check,
21 something beyond the scope of his testimony. I
22 don't think that's --

1 MR. TOWNSEND: It's the way to be able to
2 connect two pieces of testimony; one, where he does
3 present the testimony with regards to the program
4 and another one where he doesn't. I just asked if
5 he'd be willing to accept that, for purposes of
6 being able to compare the two programs through
7 these witness. Otherwise, I can't ever get a
8 question that compares the two programs because
9 each would say that they don't know the details
10 about the other.

11 MR. RATNASWAMY: Your Honors, may should
12 respond?

13 JUDGE MORAN: And maybe that's a problem.

14 MR. RATNASWAMY: If discovery had been asked
15 about it or if someone had put in testimony, as
16 they could have, making this point, then in all
17 likelihood, the Companies would have responded and
18 we'd know which witness that would be; but it's
19 far, far beyond the scope of Mr. Schott's
20 testimony.

21 JUDGE MORAN: Sustained.

22 BY MR. TOWNSEND:

1 Q. Even if some customers don't take
2 service -- don't take --

3 A. Advantage.

4 Q. -- the benefits of the programs, for the
5 Chicagoland Natural Gas Savings Program, they still
6 pay the administrative costs associated with
7 operating that program; right?

8 JUDGE MORAN: Again, the witness can answer if
9 he knows. That certainly is not suggested by the
10 testimony. So I have to...

11 THE WITNESS: I'm sorry, again, repeat the
12 question.

13 BY MR. TOWNSEND:

14 Q. Would you agree that the administrative
15 costs associated with operating the Chicagoland
16 Natural Gas Savings Program are recovered from all
17 customers in the eligible classes?

18 A. Yes.

19 Q. And you viewed that as being a fair result?

20 A. Yes.

21 Q. And do you view that as being consistent
22 with the rate-making principle that the costs

1 should be recovered from the cost-causers?

2 **A.** I'm not sure that principle applies to
3 Rider EEP costs.

4 **Q.** So you think that there are times when
5 there should be exceptions to the rate-making
6 principle, that the costs should be assigned to the
7 cost-causer?

8 **A.** It's not an exception. I'm just not sure
9 the principle applies here conceptually. I'm not
10 sure who the cost-causers are in this case.

11 **Q.** Would it be possible to view all customers
12 who are eligible as causing that cost?

13 **A.** Customers eligible?

14 **Q.** Able to take service underneath the
15 programs.

16 JUDGE MORAN: Again, that word "service," it
17 throws off.

18 MR. TOWNSEND: They take benefit of the
19 programs.

20 THE WITNESS: Repeat the question, I'm sorry.

21 BY MR. TOWNSEND:

22 **Q.** Would it be possible to view the customers

1 who are able to take the benefits underneath the
2 programs as being the cost-causers of those
3 programs?

4 **A.** One could take that position.

5 **Q.** And that would make it consistent then with
6 the idea of cost causation; correct?

7 **A.** Yes. Yes.

8 **Q.** I noticed that your testimony highlights
9 that the Companies believe that they should provide
10 safe, adequate and reliable gas distribution
11 service; correct?

12 **A.** Correct.

13 **Q.** But you don't mention that it's a priority
14 for the Companies to empower customers to choose an
15 alternative supplier, do you?

16 **A.** No, I did not say that.

17 **Q.** Is that a priority of the Companies, to
18 empower customers to choose an alternative
19 supplier?

20 **A.** MR. RATNASWAMY: I'll object. It's not
21 relevant. It's beyond the scope of his testimony.

22 JUDGE MORAN: Sustained.

1 BY MR. TOWNSEND:

2 Q. If you can turn to your surrebuttal
3 testimony at Line 204 and let me know when you're
4 there.

5 A. Line 204?

6 Q. Yes, sir.

7 A. I'm there.

8 Q. Thank you.

9 And there you referred to a rider
10 mechanism that's used by water companies in
11 Illinois; correct?

12 A. Yes.

13 Q. And you propose that the companies want to
14 do with Rider ICR something that is similar with
15 what water companies are currently doing underneath
16 their riders; correct?

17 A. Our position with regard to that was in
18 response to Staff's desire to -- if there were to
19 be a rider, that the rider be consistent with the
20 rider that is used for the water utilities.

21 Q. And your response is that Rider ICR is
22 consistent with what the water companies are doing;

1 correct?

2 **A.** Generally, yes.

3 **Q.** Would you agree that it's appropriate for
4 the Commission to look at how other utilities
5 address rate design issues, even other companies
6 that provide a different kind of utility service,
7 to determine what a particular charge or service
8 should look like?

9 **A.** What was the first part of -- what was the
10 first part of the question?

11 **Q.** Is it appropriate for the Commission to
12 look at how other utilities address rate design
13 issues?

14 MR. RATNASWAMY: Mr. Townsend, does the question
15 assume that evidence regarding that subject is in
16 the record?

17 MR. TOWNSEND: No, it doesn't have to be.

18 BY MR. TOWNSEND:

19 **Q.** Is it appropriate to look at --

20 JUDGE MORAN: For the Commission you said?

21 BY MR. TOWNSEND:

22 **Q.** For the Commission to look at how other

1 utilities address rate design issues, is that one
2 relevant area of inquiry?

3 MR. RATNASWAMY: I guess what I'm struggling
4 with is the question asked about what the
5 Commission could look at and there's no premise
6 about whether it's in or is in not in the record
7 and Mr. Schott is not a lawyer and I'm concerned,
8 therefore, that it's an unfair question.

9 JUDGE MORAN: And he's not an expert on the
10 Commission. Sustained.

11 BY MR. TOWNSEND:

12 Q. Is it appropriate for the Companies to look
13 at how other utilities address rate design issues?

14 JUDGE MORAN: By "Companies," here do you mean
15 North Shore and PGS --

16 MR. TOWNSEND: Yes.

17 JUDGE MORAN: -- as a unit?

18 MR. TOWNSEND: Yes. Thank you, your Honor.

19 THE WITNESS: You refer to how other Companies
20 approach. I would look at what the Commission has
21 approved for other companies, that would be
22 appropriate -- you know, what has the Commission

1 done in the prior decisions, but I would also only
2 look at those issues that might be relevant to
3 Peoples and North Shore and to the extent, you
4 know, our service territories are different or our
5 systems are different, then, no, it would not be
6 appropriate to see how other utilities do it.

7 BY MR. TOWNSEND:

8 Q. Is it appropriate for the Companies to look
9 at what the water companies in Illinois are doing
10 with regards to rate design?

11 A. In those rare instances where the concepts
12 would work equally well for a water company and a
13 gas company, yes; but I would think that those
14 would be rare.

15 Q. It would be more relevant to look at gas
16 cases rather than water cases most of the time;
17 correct?

18 A. I'm not sure.

19 Q. Would it be appropriate for the Companies
20 to look at how another gas utility, say, Nicor,
21 assesses charges or provides services?

22 MR. RATNASWAMY: Your Honors, I object that it's

1 beyond the scope. The testimony on Page 10 is
2 about the structure of incremental versus total
3 cost under an infrastructure cost recovery rider,
4 it's not about rate design.

5 MR. TOWNSEND: He tries to justify that by
6 pointing to an approach that water companies have
7 used and now I'm just asking -- well, if you're
8 going to look at water companies approach and he
9 said in limited circumstances that's appropriate,
10 I'm asking whether it makes sense to likewise look
11 at Nicor's approach to services and rate design.

12 JUDGE MORAN: We're going to sustain the
13 objection on a different basis, that there seems to
14 be a whole mischaracterization of what was
15 testified to here by Mr. Schott and we would refer
16 you to a response that Mr. Schott already gave on
17 the record, that he did this in response to what
18 Staff had asked.

19 So --

20 MR. FOSCO: And for the record, your Honor,
21 Staff didn't ask -- I think he was referring to
22 what Staff asked in another case.

1 THE WITNESS: Say it again.

2 MR. FOSCO: I believe Mr. Schott is referring to
3 what Staff testified to in another case, not in
4 this case.

5 THE WITNESS: That's correct.

6 JUDGE HAYNES: Yes.

7 MR. FOSCO: Just so the record is clear on that.

8 JUDGE MORAN: So if you want to, you can
9 establish through this witness the context for
10 this -- for this testimony and then see if the
11 questions that you want to ask fit under that
12 testimony or are relevant to that testimony.

13 BY MR. TOWNSEND:

14 Q. Mr. Schott, do you think that it is
15 appropriate for the Commission -- is it your
16 recommendation that the Commission look to the
17 water companies' approach with regards to Rider
18 ICR?

19 A. Yes.

20 Q. And would it be appropriate also for the
21 Commission to look at other gas utilities' approach
22 to other rate design issues?

1 MR. RATNASWAMY: I object to the form of the
2 question because whether to include incremental or
3 total costs in a rider, I don't think is a rate
4 design issue.

5 JUDGE MORAN: Agreed. Sustained.

6 BY MR. TOWNSEND:

7 Q. Would it be appropriate for the Commission
8 to look at other gas utilities' final orders to
9 determine whether or not an approach for any issue
10 is appropriate? That is, would you distinguish
11 between it's appropriate for rate design but not
12 appropriate for cost recovery? Or would you agree
13 that in both circumstances, it's appropriate to
14 look at other gas utilities' approaches?

15 MR. RATNASWAMY: I object to the form of the
16 combined three questions.

17 JUDGE MORAN: Okay. Yeah, that was a little...

18 MR. TOWNSEND: Let me just ask --

19 JUDGE MORAN: I think maybe the last of those
20 three kind of pulled everything together, I will
21 agree with that. So...

22 BY MR. TOWNSEND:

1 **Q.** Would you agree that it's appropriate for
2 the Commission to look at other natural gas
3 utilities' approaches to both rate design and cost
4 recovery issues?

5 **A.** Only where the facts are similar would that
6 be appropriate.

7 **Q.** And should the Company perform an
8 investigation to determine whether or not the facts
9 are similar?

10 **A.** No.

11 JUDGE MORAN: Mr. Townsend, how much cross do
12 you have left?

13 MR. TOWNSEND: Just a little bit.

14 JUDGE MORAN: Okay. Because we may need to take
15 a break.

16 BY MR. TOWNSEND:

17 **Q.** You were in the room earlier when Peoples
18 witness, I'm sorry, the Companies' witness,
19 Miss Hoffman Malueg, testified; correct?

20 **A.** I was absent for part of it.

21 **Q.** Were you here when she indicated that she
22 looked at what other gas utilities did with respect

1 to expense allocation to decide how they would deal
2 with those expenses?

3 MR. RATNASWAMY: Your Honors, I object to the
4 relevance, beyond the scope and also the
5 exponential nature if we cross all the witnesses
6 about other witnesses testimony even if it was not
7 related to the scope of their own testimony.

8 MR. TOWNSEND: All I asked is whether or not he
9 heard that testimony.

10 MR. RATNASWAMY: He already said he was here for
11 part of it.

12 JUDGE MORAN: That's the question he can answer
13 that question.

14 THE WITNESS: Yes.

15 BY MR. TOWNSEND:

16 Q. Do you think it was appropriate for her to
17 look at other gas utilities' expenses?

18 MR. RATNASWAMY: I'll object to the relevance
19 and beyond the scope of his testimony.

20 JUDGE MORAN: Sustained.

21 MR. TOWNSEND: No further questions, your
22 Honors.

1 JUDGE MORAN: Okay.

2 MR. FOSCO: If I could proceed or we can take a
3 break, whatever you want.

4 JUDGE MORAN: How much?

5 MR. FOSCO: I was down for 10, it's about that,
6 it might be a few minutes longer.

7 JUDGE MORAN: We'd like to break. So let's take
8 a 10-minute -- 5-minute break.

9 CROSS-EXAMINATION

10 BY

11 MR. FOSCO:

12 Q. Good afternoon, Mr. Schott.

13 A. Good afternoon, Mr. Fosco.

14 Q. My name is Carmen Fosco. I represent
15 Staff.

16 I have a -- just a few questions,
17 really, and most of them relate to the -- what I
18 would come, I guess, the Liberty Audit Issue.

19 A. Okay.

20 Q. Mr. Schott, do you know what the effect is
21 of not performing corrosion inspections in a timely
22 manner?

1 **A.** That's not my area of expertise, that would
2 probably be Mr. Doerk.

3 **Q.** Mr. Schott, who made the -- who personally
4 made the decision to not develop a tracking
5 mechanism as directed in Docket 06-0311 or that it
6 wasn't necessary. Who made that decision?

7 MR. RATNASWAMY: Mr. Fosco, would you mind
8 rephrasing that?

9 MR. FOSCO: Sure.

10 MR. RATNASWAMY: I don't want the
11 characterization of the order to be part of the
12 question.

13 MR. FOSCO: Sure.

14 BY MR. FOSCO:

15 **Q.** Referring to Page 14 of your rebuttal
16 testimony, you testified that it would have been a
17 waste of resources to develop a tracking mechanism
18 for such cost, where no such cost existed.

19 Do you see that?

20 **A.** Yes.

21 **Q.** Who made that decision that it would have
22 been a waste of resources?

1 **A.** I'm not sure an individual made that
2 decision. Where something doesn't happen, I would
3 -- that's hard to say somebody made the decision
4 not to do something and I don't --

5 **Q.** Who was -- I'm sorry, were you finished?

6 **A.** Go ahead.

7 **Q.** Who was in charge of compliance with the
8 order in 06-0311 with respect to a tracking
9 mechanism for cost?

10 **A.** I would think that between Mr. Doerk's
11 department and my department, we would have -- had
12 we identified violations, we would have started the
13 taking mechanism.

14 **Q.** So you -- did you make a decision at the
15 time with respect to tracking of costs or did you
16 only make a decision since this case has been
17 filed?

18 **A.** We would have created a tracking mechanism
19 had we determined that there were violations that
20 would require us to begin tracking.

21 **Q.** Okay. And I guess I go back to my first
22 question. I asked you if you were familiar with

1 the consequences of not performing corrosion
2 inspections in a timely manner and you referred to
3 me to Mr. Doerk and it appears to me that you are
4 now telling me that the decision as to whether
5 costs were tracked, a, depended upon that
6 determination of whether there were costs flowing
7 from the impact of doing that and that you and Mr.
8 Doerk made that decision.

9 So I guess I need more clarification as
10 to whether you or Mr. Doerk made a decision as to
11 tracking the costs at the time immediately after
12 the Commission's order in 06-0311?

13 **A.** And I think as I said, I don't think an
14 explicit decision as made to not track costs.

15 **Q.** Did you or Mr. Doerk, to your knowledge,
16 come to a conclusion at some point before the
17 filing of this case that, as you state in your
18 testimony, it would have been a waste of resources
19 to develop a tracking mechanism?

20 **A.** Can you repeat the question, please.

21 **Q.** Sure. Did you or Mr. Doerk, to your
22 knowledge, make a decision before the filing of

1 this rate case, that it would have been a waste of
2 resources to develop a tracking mechanism as
3 referred to on Page 14 of your rebuttal testimony?

4 **A.** I'm not aware of that decision being made.

5 **Q.** To your knowledge, was any affirmative
6 decision made by management as to the tracking of
7 costs prior to the filing or -- prior in time to
8 the filing of the current rate case?

9 **A.** I'm not aware of any.

10 **Q.** So this statement in your testimony is only
11 your opinion that arose after the filing of the
12 rate case after seeing Miss Hathhorn's testimony;
13 correct?

14 **A.** Although it would have been my conclusion
15 at any point, I would have had the same conclusion
16 from the date of the order till today. I would
17 have had the same conclusion.

18 **Q.** How could you come to that conclusion since
19 you indicate that you are not familiar with the
20 impacts of the predicate act which is failing to
21 perform corrosion inspections on a timely basis?
22 You testified that I had to refer to Mr. Doerk for

1 that, so how could you make that decision if you
2 are not familiar with the impacts of the predicate
3 act that the Commission found to require to a
4 tracking for?

5 A. I don't have the order in front of me. Do
6 you -- I --

7 Q. Well --

8 JUDGE MORAN: Do you have a copy of the order
9 that --

10 MR. FOSCO: I do not have a copy of that order
11 with me.

12 THE WITNESS: I believe Page 31 of my testimony
13 probably has the relevant data, so --

14 BY MR. FOSCO:

15 Q. That's what I was just going to refer you
16 to. And if you look at the left side of your table
17 where you quote, Finding 11, the language there
18 is --

19 A. I'm reading that.

20 Q. Okay.

21 A. Well, the tracking mechanism refers to such
22 incremental costs -- and if I read above it -- it's

1 the incremental costs caused solely by violation of
2 the Illinois Gas 5-point Safety Act.

3 Q. Well, let me refer you --

4 A. Not to the -- not performing.

5 Q. Well, if you look at the -- starting at the
6 third line down on Line 231, it's table on the
7 left, you state in your testimony quoting from
8 Finding 11, in any future rate or reconciliation
9 proceeding before the Commission -- well let me
10 back up to the second line -- quot, Peoples Gas
11 shall not seek recovery in any future rate or
12 reconciliation proceeding before the Commission of
13 costs or expenses solely attributable to Peoples
14 Gas not performing corrosion inspections in a
15 timely manner.

16 Do you see that?

17 A. Yes, I do.

18 Q. And you've testified that there were -- in
19 your opinion, you've testified that there were no
20 costs related to not performing corrosion
21 inspections in a timely manner; correct?

22 A. I don't believe I testified to that.

1 **Q.** Well, on Line 239 you said, It would have
2 been a waste of resources to develop a tracking
3 mechanism for such costs where no such cost exists?

4 **A.** Yes and, again, I believe the tracking
5 mechanism-- tracking mechanism refers to
6 incremental costs and again the incremental costs
7 language is under caused solely by violation of the
8 Illinois Gas Pipeline Safety Act. I don't believe
9 the tracking mechanism applies to the costs for the
10 corrosion inspection.

11 **Q.** So that's how you interpreted that order?

12 **A.** Yes. That's how I would interpret that
13 order, yes.

14 **Q.** So you don't consider costs solely
15 attributable to Peoples Gas not performing
16 corrosion inspections in a timely manner to refer
17 to incremental costs, but all such costs?

18 **A.** You were asking about the tracking
19 mechanism.

20 **Q.** Correct.

21 **A.** And the tracking mechanism, to me,
22 applies -- does not apply to the corrosion section.

1 **Q.** And, again, my question was, though, -- and
2 I see your reference to the incremental costs for
3 the tracking mechanism, but my question still
4 stands, which is: Are you testifying that you do
5 not consider cost or expenses solely attributable
6 to Peoples Gas not performing corrosion inspections
7 in a timely manner to not refer to incremental
8 costs?

9 **A.** I'm struggling with the question.

10 JUDGE MORAN: Maybe you can restate it or even
11 break it down.

12 (Change of reporter.)

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1 **Q.** Well, let me ask a different question. Are
2 you familiar with the effects of violations of the
3 Illinois Gas Pipeline Safety Act or its
4 implementing regulations.

5 **A.** I'm not the best witness for that. That
6 would be Mr. Doerk.

7 **Q.** So then to the extent that your testimony
8 on Page 14 relates to incremental costs, it's
9 solely Mr. Doerk's testimony that you're relying on
10 to make a statement that no such costs exist?

11 **A.** Correct.

12 **Q.** And I guess I'm having trouble
13 understanding why this is in your testimony then if
14 you're just relying or reporting what Mr. Doerk
15 opines on.

16 **A.** Well, I'm taking the information that
17 Mr. Doerk provided and testified to and applying --
18 and use that to address the adjustment made by --
19 by Miss Hathhorn.

20 **Q.** But you have no independent knowledge then
21 of the nature of the cost at issue?

22 **A.** That's correct.

1 **Q.** Okay. And I think we've established this,
2 but you agree that the Commission did require a
3 tracking mechanism for incremental cost; correct?

4 **A.** Yes.

5 **Q.** And, in your experience, would you expect
6 the Commission to implement a requirement that it
7 thought would require no action?

8 **A.** I would hope they thought it would require
9 no action. I mean, I would -- that if there were
10 violations of the Illinois Gas Line -- Pipeline
11 Safety Act then we wouldn't have to develop a
12 mechanism, and that's what the Commission fully
13 expected.

14 In that event but I don't know that the
15 Commission expected us to have violations of the
16 Illinois Gas Pipeline Safety Act.

17 **Q.** Okay. Fair enough. Thank you.

18 Mr. Schott, should a utility be
19 responsible for extra costs incurred as a result of
20 failing to comply with applicable regulations or
21 rules?

22 **A.** Sorry. Repeat the question.

1 **Q.** Should a utility be responsible for extra
2 costs incurred as a result of failing to comply
3 with applicable regulations or rules?

4 **A.** I'd have to -- what specifically you mean
5 by extra costs. I mean, certain extra costs -- I
6 mean, fines and penalties I would agree that that
7 should not be recoverable.

8 **Q.** Would you agree that costs currently
9 incurred to perform maintenance or repair work that
10 should have been performed in a prior year and for
11 which there was no reason or justification for
12 delaying such work may constitute imprudently
13 incurred costs in the current for ratemaking
14 purposes?

15 **A.** Given what you've said, I would say no.

16 **Q.** No? So there's no consequence to the
17 utility for failing to timely perform work?

18 **A.** I didn't say that.

19 **Q.** But you just testified that it would never
20 have a ratemaking impact, in your view.

21 **A.** Repeat the question before last.

22 **Q.** Sure.

1 **A.** I think those two questions are two
2 different questions.

3 **Q.** Would you agree that costs currently
4 incurred to perform maintenance or repair work that
5 should have been performed in a prior year and for
6 which there was no reason -- I'm asking you to
7 assume -- for which there was no reason or
8 justification for delaying such work, constitute
9 imprudently incurred costs for ratemaking purposes
10 in the current year?

11 **A.** If you do maintenance in one year, you do
12 maintenance the following -- and instead you do
13 maintenances the following year, I don't see where
14 that rises to a level of imprudence. Again, I'm
15 not an attorney, but I don't understand what --
16 that wouldn't rise to a level of imprudence.

17 **Q.** And I'm certainly -- a preference to all my
18 questions, I'm not seeking --

19 Page 15 of your rebuttal testimony you
20 have a trucking example that you provide.

21 **A.** Yes, I do.

22 **Q.** I'd like to follow up with a slightly

1 different hypothetical. I'd like you to assume
2 that shipping rates for this trucking company are
3 based in part on annual maintenance and repair
4 costs. I'd asked to you further assume that
5 applicable regulations require each truck to
6 receive brake maintenance once every four years
7 such that shipping costs include the cost of
8 performing brake maintenance for 25 percent of the
9 truck fleet.

10 You with me so far?

11 **A.** Yes.

12 **Q.** Further assume that the trucking company
13 failed in the prior year to perform timely brake
14 maintenance and that to come into compliance in the
15 current year it must perform brake maintenance on
16 50 percent of its trucking fleet.

17 Given this hypothetical, would you agree
18 that even though the cost of performing brake
19 maintenance on 50 percent of its trucking fleet is
20 necessary to come into compliance in the current
21 year, only the cost of performing brake maintenance
22 on 25 percent of its trucking fleet should be

1 included in shipping rates?

2 **A.** To me that's what we call a normalization
3 issue, that the normal expense is 25 percent and
4 that you would normalize that to 25 percent. But
5 that would not imply that the additional 25 percent
6 is imprudent.

7 **Q.** Even if the company was negligent or
8 imprudent and not complying with the regulations to
9 maintain -- you know, service 25 percent of its
10 brakes each year?

11 **A.** Yes.

12 Again, not only am I not a regulatory
13 expert, I'm not a trucking expert -- legal trucking
14 expert, so I don't want to imply that I do.

15 **Q.** On Page 7 of your surrebuttal testimony you
16 identify what you -- a new standard by Staff. What
17 is the new standard that you're referring to?

18 **A.** To come into compliance with.

19 **Q.** And wouldn't you agree that Miss Hathhorn
20 revised her -- or clarified her testimony to make
21 clear that she's the not simply excluding all costs
22 to come into compliance with? And this is your

1 surrebuttal testimony?

2 **A.** Yeah.

3 JUDGE MORAN: Do you have any reference to Miss
4 Hathhorn's testimony?

5 MR. FOSCO: I don't, your Honor. Because he
6 didn't refer to it.

7 THE WITNESS: I guess, no, I don't believe she
8 clarified it. And that's why I reiterated this.

9 BY MR. FOSCO:

10 **Q.** Okay. But to be clear, the new standard
11 that you're alleging Staff made is that all cost to
12 come into compliance should be excluded, that's the
13 new standard you're referring to?

14 **A.** You added the term "all." And I have to
15 think about "all," but the rest of it I'm okay with
16 at this point.

17 My point is she did not apply the
18 standard in the Commission order which was -- you
19 know, clearly defined as incremental costs.

20 **Q.** So that's your opinion? It's your opinion
21 that she did not apply the incremental cost of
22 company into compliance but rather all cost of

1 coming into compliance? I mean, what's the
2 opposite of incremental?

3 **A.** It's not incremental. It's --

4 **Q.** Well, that was your testimony just a few
5 minutes ago.

6 Are you changing that testimony?

7 **A.** No, I'm using the entire statement.
8 Incremental costs caused solely by violations of
9 the Illinois Gas Pipeline Safety Act. Caused by a
10 violation, not caused to come into compliance with.

11 **Q.** So I guess I'm back to my first question
12 to -- what do you consider the new standard to be
13 that Staff came up with? Is it incremental costs
14 but not -- I mean, you told me before that you
15 thought she did not include the incremental cost
16 component; correct -- strike that.

17 **A.** She did limit herself to incremental costs.
18 It's costs to come into compliance with.

19 **Q.** I still don't think I've gotten an answer
20 so let me ask you one more time, specify for me
21 what you believe the new standard that Staff is
22 advocating in this docket with respect to costs?

1 **A.** I refer to her testimony that's highlighted
2 in my Line 231, Costs required for People Gas to
3 come into compliance with the rules regarding
4 pipeline safety.

5 **Q.** So you're referring back to her direct
6 testimony not her rebuttal testimony?

7 **A.** Well, that's in my rebuttal testimony.

8 **Q.** Right. Which her rebuttal testimony didn't
9 exist at that time.

10 JUDGE MORAN: Right.

11 BY MR. FOSCO:

12 **Q.** And I'm referring to your statement in your
13 surrebuttal testimony, which is after her rebuttal
14 testimony where you state she still advocates a
15 standard that you can consider wrong?

16 **A.** If you point to me where in her rebuttal
17 testimony she clarified that, that would help. But
18 my reading of it -- my recollection of it is it
19 was -- this still stands as highlighted by the fact
20 that Mr. Burk used these exact same words in his
21 testimony -- his rebuttal testimony.

22 **Q.** Did you read Miss Hathhorn's rebuttal

1 testimony?

2 **A.** Yes, I did.

3 **Q.** We're getting near the end here.

4 Do you agree that notwithstanding the
5 fact that a utility paid a prudent price for some
6 bidder's service it is possible that those costs
7 may not have been prudently incurred?

8 **A.** Repeat the question.

9 **Q.** Do you agree that notwithstanding the fact
10 that a utility pays a prudent price for some
11 bidder's service it is possible that those costs
12 may not have been prudently incurred?

13 **A.** Yes.

14 MR. FOSCO: I have no further questions, your
15 Honor.

16 JUDGE MORAN: Is there any other?

17 Okay. Redirect.

18 MR. RATNASWAMY: I'm hoping this will be very
19 brief.

20 JUDGE MORAN: Okay.

21 MR. RATNASWAMY: We have more than one question.

22

1 REDIRECT EXAMINATION

2 BY

3 MR. RATNASWAMY:

4 Q. Mr. Schott, everything else being equal, is
5 Peoples Gas -- this relates to Miss Lusson's
6 question. Everything else being equal, is Peoples
7 Gas more likely to accelerate its Main Replacement
8 Program with Rider ICR being approved than without
9 it being approved?

10 A. Yes.

11 Q. On the subject of Mr. Fosco's final line of
12 questioning -- all right. It's hard to come up
13 with a hypothetical on the fly, but let me try
14 this.

15 Let's assume as a hypothetical that a
16 utility is not performing timely corrosion
17 inspections. You with me so far?

18 A. Yes.

19 Q. And the utility looks into that and decides
20 that it should hire a few more people -- let's say
21 five -- to do corrosion inspections and it intends
22 to keep employing those people indefinitely and

1 that's just what they're going to do. They're just
2 going to do corrosion inspections. With me so far?

3 A. Yes.

4 Q. In that hypothetical, you understand -- is
5 any part of the cost of hiring the original
6 people -- the additional people to perform
7 corrosion inspections caused by the prior failure
8 to perform timely inspections?

9 MR. FOSCO: I'm going to object. I think it's
10 an incomplete hypothetical. We don't know what the
11 workers are doing in the year that he's saying
12 they're hired. We don't know if they're catching
13 up with work that should have been perform or if
14 they're just performing the normal requirements
15 each year. I think it's an incomplete
16 hypothetical.

17 MR. RATNASWAMY: And actually, Mr. Fosco, my
18 point is, it doesn't matter. If they have hired
19 the prudent number of people -- that is the prudent
20 number to have people to have indefinitely, then
21 there is no imprudent cost. That's why I asked the
22 hypothetical the way I did.

1 MR. FOSCO: I disagree.

2 I think, your Honor -- I mean, the
3 utility -- if the utility fails to comply with some
4 requirement and because of that failure has to
5 perform more than the normal level of work in a
6 given year to catch up, we -- you know, we disagree
7 as to the reading of that conduct as to whether
8 it's prudent or not. And I think the hypothetical
9 is incomplete. I mean, Mr. Schott can opine on
10 whatever basis he feels. He can disagree with our
11 position. But I still think we're entitled to have
12 a complete hypothetical that indicates the
13 assumptions under which this witness will answer
14 that question.

15 JUDGE MORAN: Well, then I won't -- I will allow
16 you to amend that hypothetical on recross. How
17 about that?

18 MR. FOSCO: That's fine, your Honor.

19 JUDGE MORAN: Because that's not going to
20 resolved by a witness at issue anyway.

21 BY MR. RATNASWAMY:

22 Q. Mr. Schott, do you remember the

1 hypothetical?

2 JUDGE MORAN: That's a whole different question.

3 And maybe -- can you recall or do you want it read
4 back.

5 MR. RATNASWAMY: I think I can do it again.

6 BY MR. RATNASWAMY:

7 Q. So the hypothetical utility is behind on
8 corrosion inspections. They look into it and they
9 decide that not just for now but the future they
10 need to have more people perform corrosion
11 inspections. So they hire five more people and
12 those people are going to be kept indefinitely and
13 all they're going to do is perform corrosion
14 inspections. In that hypothetical are any of the
15 costs of paying those employees imprudent?

16 A. No, I wouldn't -- I'm not an attorney, but
17 I would not consider those imprudent.

18 Q. Let me try a different hypothetical.
19 Suppose you kept the same number of employees
20 performing corrosion inspections at all time and
21 suppose that in year one they didn't perform
22 enough. Are you with me so far?

1 **A.** Yes.

2 **Q.** So in year two they had to perform more
3 inspections, but you didn't hire anyone extra and
4 you didn't pay them any overtime. With me so as
5 far?

6 **A.** Yes.

7 **Q.** Okay. Are there any extra costs due to the
8 failure in year one to perform timely inspections?

9 **A.** No.

10 MR. RATNASWAMY: No further questions.

11 MR. FOSCO: No further redirect?

12 Your Honor, I have some recross.

13 JUDGE MORAN: Yes.

14 REXCROSS-EXAMINATION

15 BY

16 MR. FOSCO:

17 **Q.** Taking Mr. Ratnaswamy's hypothetical, I'd
18 like you to assume that -- was it five additional
19 employees?

20 MR. RATNASWAMY: In the first hypothetical.

21 BY MR. FOSCO:

22 **Q.** In the first hypothetical. Let's assume

1 that they are only hired for one year and they are
2 only hired for purposes of bringing the company to
3 the level of inspections that it should have
4 already been at and that those employees will be
5 temporary employees and not further employed. In
6 this case, are the cost of those additional
7 employees prudent in your opinion?

8 **A.** Yes.

9 MR. FOSCO: Okay. No further questions.

10 JUDGE MORAN: Okay. Any --

11 MS. LUSSON: Yes.

12 RECROSS-EXAMINATION

13 BY

14 MS. LUSSON:

15 **Q.** Mr. Schott, would you agree that all else
16 being equal even with Rider ICR adoption of the
17 accelerated Main Replacement Program increases the
18 need for future rate relief given the overall
19 increase in the revenue requirement associated with
20 the accelerated Main Replacement Program.

21 **A.** I'm sorry. Say that one --

22 **Q.** Would you agree that all else being equal

1 even with Rider ICR adoption of the accelerated
2 Main Replacement Program increases the Company's
3 need for future rate relief given the overall
4 increase in the revenue requirement associated with
5 that advanced replacement program, again, all else
6 being equal?

7 **A.** So if I have Rider ICR, I'm accelerating
8 the Main Replacement Program, I'm still going to
9 have to file -- when you say "additional rate
10 relief," outside of Rider ICR?

11 **Q.** Would you agree that adoption of the
12 accelerated Main Replacement Program that this
13 company prefers increases the need for future rate
14 relief. In other words, increase the Company's
15 revenue requirements given the overall increase in
16 revenue requirements associated with the advanced
17 replacement program, all else being equal?

18 **A.** Given the Rider ICR -- it's Rider ICR
19 without a cap would give us the rate relief we
20 would need under the accelerated program. So I
21 think the answer is no because -- except for the
22 cap. And the cap is what's going to require us to

1 get rate relief beyond Rider ICR.

2 Q. Right.

3 So my question assumed Ride ICR as
4 proposed, which includes a cap. So would the
5 answer to my question then be yes?

6 A. Yes.

7 JUDGE MORAN: Any further redirect?

8 MR. RATNASWAMY: I'm too chicken.

9 JUDGE MORAN: Yes. RGS had two exhibits that
10 they marked for identification. Are you seeking to
11 admit those?

12 MR. TOWNSEND: Not at this time, your Honor.

13 JUDGE MORAN: With that, the witness is excused.

14 And we're going to take a lunch break.
15 We're going to have to do lunch in 45 minutes,
16 that's the long and short of it. So we'll call it
17 1:00 o'clock now, and we'll resume at quarter to
18 2:00.

19 (Whereupon, a recess was taken.)

20 JUDGE MORAN: We can go back on the record.

21 When we left there were two matters that
22 I said we would rule on. The first was Staff's

1 motion to strike testimony of Witness Moul. And
2 that motion will be granted. So what that does is
3 the Company will have to file a new version of that
4 testimony with those parts stricken.

5 MS. KLYASHEFF: Understood. We'll do that.

6 JUDGE MORAN: Understood. Good.

7 The second thing that was open for our
8 ruling is the matter of all the testimonies that
9 are going to be put in by affidavit to see if those
10 witnesses could be released. All those witnesses
11 can be released who are going to do it by
12 affidavit.

13 But the ALJs have been brought to the
14 attention by Mr. Donovan that, in fact, he will not
15 be here for the full week and therefore you tell us
16 when you will be ready to put in your witnesses by
17 affidavit. We will do it at the end of that day,
18 if that will fit your schedule.

19 MR. DONOVAN: I think what I'm planning on doing
20 is filing the affidavit on e-Docket and serving
21 this evening, in fact, tomorrow morning. I think
22 I'm scheduled for an early afternoon flight.

1 JUDGE MORAN: Then bring that to our attention
2 at the beginning of tomorrow's hearing --

3 MR. DONOVAN: Great. Thank you very much.

4 JUDGE MORAN: -- and we'll put that in.

5 So those are the two main things that we
6 had and I guess now we're ready to proceed with the
7 next witness. Unless anyone else has something?

8 Okay. Hearing none, Counsel, you can
9 put on your witness, please.

10 MS. KLYASHEFF: North Shore and Peoples Gas call
11 Valerie Grace.

12 (Witness sworn.)

13 VALERIE GRACE,
14 called as a witness herein, having been first duly
15 sworn, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY

18 MS. KLYASHEFF:

19 Q. Would you please state your name and
20 business address for the record.

21 A. Valerie H. Grace, 130 East Randolph Drive
22 Chicago, Illinois 60601.

1 **Q.** Do you have before you the following four
2 documents, the direct testimony of Valerie Grace
3 with the caption of North Shore Gas Company marked
4 for identification as North Shore Exhibit VG 1.0
5 revised; direct testimony of Valerie Grace with the
6 caption of the Peoples Gas Light and Coke Company
7 marked for identification as Peoples Gas Exhibit VG
8 1.0 revised; rebuttal testimony of Valerie Grace
9 with the caption of this consolidated proceeding
10 and marked for identification as North Shore PGL
11 Exhibit VG 2.0 revised; and the surrebuttal
12 testimony of Valerie Grace with the caption of this
13 consolidated proceeding and marked for
14 identification as NSPGL Exhibit VG 3.0?

15 **A.** Yes, I do.

16 **Q.** Do you have any changes or corrections to
17 those documents?

18 **A.** No, I do not.

19 **Q.** If I were to ask you today the questions --

20 JUDGE HAYNES: Excuse me. I don't think your
21 microphone's on.

22

1 BY MS. KLYASHEFF:

2 Q. If I were to ask you today the questions
3 that are included in those documents, would your
4 answers be the same as set forth in those
5 documents?

6 A. Yes, they would.

7 Q. Do these documents contain the sworn
8 testimony that you wish to give in this proceeding?

9 A. Yes, they do.

10 Q. Do you have before you the following
11 exhibits that were included with your testimony,
12 North Shore Exhibits VG 1.1 through 1.14 of which
13 1.12 is revised; Peoples Gas Exhibits VG 1.1
14 through 1.14 of which 1.12 and 1.14 are revised;
15 NSPGL Exhibits VG 2.1 through 2.4 of which 2.1 and
16 3.3 have Peoples Gas and North Shore versions;
17 NSPGL Exhibits 3.1 through 3.3 of which 3.1 and 3.2
18 have Peoples Gas and North Shore versions and 3.3
19 is Peoples Gas only?

20 A. Yes, I do.

21 Q. Are these the exhibits you reference by
22 reference to these numbers in your testimony?

1 **A.** Yes, they are.

2 **Q.** Were they prepared by you or under your
3 supervision and direction?

4 **A.** Yes, they were.

5 MS. KLYASHEFF: Subject to cross-examination, I
6 move for admission of North Shore Exhibit VG 1.0
7 revised, which was filed on e-Docket June 3rd of
8 '09; VG 1.1 through 1.11 and 1.13 to 1.14, which
9 were filed on e-Docket February 25th of '09; and
10 1.12 revised, which was filed on e-Docket June 3rd
11 of '09; Peoples Gas VG Exhibit 1.0 revised, which
12 was filed on e-Docket June 3rd; Exhibits 1.1
13 through 1.11, 1.13, which were filed on e-Docket
14 February 25th; and Exhibits PGL 1.12 and 1.14
15 revised, which were filed on e-Docket June 3rd and
16 May 29 respectively; VG 2.0 revised, which was
17 filed on e-Docket July 22; VG 2.1 to 2.6, filed
18 July 8th; and VG 3.0 to 3.3, filed August 17.

19 And the witness is available for cross.

20 JUDGE MORAN: Are there any objections to any of
21 the exhibits as recounted by counsel?

22 Hearing no objections all of this

1 evidence is admitted into the record.

2 (Whereupon, North Shore Exhibit No. VG 1.0 revised;
3 VG 1.1-1.11, 1.13-1.14 and 1.12 revised; Peoples
4 Gas VG Exhibit 1.0 revised; Exhibits 1.1-1.11,
5 1.13; PGL 1.12 and 1.14 revised; VG 2.0 revised; VG
6 2.1-2.6; VG 3.0 to 3.3 were admitted into
7 evidence.)

8 JUDGE MORAN: And who wishes to start
9 cross-examination?

10 MS. LUSSON: The People have some cross, your
11 Honor.

12 CROSS-EXAMINATION

13 BY

14 MS. LUSSON:

15 Q. Good afternoon, Miss Grace.

16 A. Good afternoon.

17 Q. I have some questions regarding the ICR
18 mechanism and how it functions. If you could turn
19 to Page 36 of your direct testimony.

20 Now, it's correct, and I believe
21 Mr. Schott confirmed, that the rider proposed by
22 the Company would cover all new forecasted

1 investments in four of the six counts that are
2 listed there at Lines 788 and a percentage of the
3 forecasted investments for Accounts 381 meters and
4 383 house regulators; is that correct?

5 **A.** Yes, that's correct.

6 **Q.** Now, who sets those percentages and how are
7 those percentages calculated for those two
8 accounts, meters and house regulators?

9 **A.** Those percentages are determined by
10 personnel in the Company's Operations Division.
11 And they base those percentages based on actual
12 experience knowing how much of those assets is used
13 for forecast main replacement.

14 **Q.** And are those percentages reflected in the
15 ICR -- proposed ICR tariff?

16 **A.** Yes, they are.

17 **Q.** Now, the -- it's correct that the ICR
18 tariff, as proposed, would be billed over a
19 nine-month period, April through December; is that
20 correct?

21 **A.** Yes, that's correct.

22 **Q.** Now, as I understand the way ICR works the

1 ICR surcharge is based on forecasted calendar year
2 end average balances, is that right, of the plant
3 in those accounts?

4 **A.** Average balances of the December 31 date
5 and time the year prior to and the December 31 date
6 and time after -- the effective date of the
7 mechanism.

8 MS. LUSSON: Could I have that answer read back,
9 please.

10 (Whereupon, the record was read as requested.)

11 BY MS. LUSSON:

12 **Q.** So it's based on -- just to clarify, it's
13 based on forecasted calendar year end average
14 balances from the December 31st prior. And can
15 you --

16 **A.** The December 31st period.

17 **Q.** Of the year --

18 **A.** Yeah, from the year that the mechanism is
19 effective -- the charge is effective.

20 **Q.** Now, are the monthly ICR surcharges
21 adjusted each month for such things as work slow
22 downs or weather or any factor that might affect

1 the pace of acceleration or are the amounts charged
2 set on an annual basis and then reconciled at the
3 end of the 12-month period -- or 9-month period?

4 **A.** The amounts are set annually and they're
5 reconciled each year.

6 **Q.** So given that the ICR charge is set
7 annually, if for whatever reason the Company does
8 not keep pace with its forecasted plan investments,
9 numbers that are in the ICR calculation, ratepayers
10 could be assessed an ICR surcharge for work that,
11 in fact, did not occur and would not be credited
12 with a refund until the annual reconciliation
13 proceeding is held, is that true?

14 **A.** Customers will receive a refund based on
15 the annual reconciliation, included with their
16 refund would be interest.

17 **Q.** So the answer to that question would be
18 "yes" then?

19 **A.** Yes.

20 **Q.** If you could go to Lines -- Page 37 of your
21 surrebuttal, Lines 819 through 822. At that point
22 in the testimony you were discussing Mr. Rubin's

1 Exhibit 6.06. Do you see that?

2 A. Yes.

3 Q. And at Line 820 the question reads, Does
4 this illustration accurately reflect how
5 accelerated costs would be recovered under Peoples
6 Gas's proposed Rider ICR. Do you see that?

7 A. Yes, I do.

8 Q. Now, your testimony reads, No. And then
9 the next sentence is, Mr. Rubin's exhibit reflects
10 revenue requirement amounts derived by using
11 investments costs for each year. Do you see that?

12 A. Yes, I do.

13 Q. And then you also state, However, revenue
14 requirements under Rider ICR are computed by
15 averaging year end cost data for the prior and
16 effective year of the Rider ICR charge; is that
17 your testimony?

18 A. Year end, December 31st, even though it
19 doesn't say it in my testimony it's reflected as
20 such in the tariff -- the proposed ICR tariff. So
21 year end December 31st and year end December 31st
22 of the period following the effective ICR charge.

1 **Q.** Okay. Do you have a copy of Mr. Rubin's
2 Exhibit 6.06 with you?

3 **A.** No, I don't believe I do.

4 MS. LUSSON: May I approach the witness?

5 JUDGE MORAN: Yes, please.

6 And what are you showing?

7 MS. LUSSON: I'm showing the witness Mr. Rubin's
8 Exhibit 6.06, which is what she's discussing.

9 JUDGE MORAN: Okay. And that's three pages
10 right?

11 MS. LUSSON: Correct.

12 BY MS. LUSSON:

13 **Q.** Now, in the sentence that reads -- that
14 begins with the word "however" at Page 824, you
15 say, Revenue requirements under Rider ICR are
16 computed by averaging year end -- as I understand
17 your testimony -- December 31st cost data, et
18 cetera.

19 Now, looking at that exhibit, would you
20 agree that nowhere does this exhibit attempt to
21 show or reflect how accelerated costs would be
22 recovered under Rider ICR?

1 **A.** Yes.

2 **Q.** In fact, this exhibit reflects the annual
3 revenue requirement associated with the capital
4 investment and the revenue requirement associated
5 with capitalized operation and maintenance costs
6 associated with the accelerated Main Replacement
7 Program; is that correct?

8 **A.** Yes.

9 **Q.** So in that sentence, Line 824, when you
10 reference revenue requirements, would it be more
11 accurate to say, However, revenue collected under
12 Rider ICR is computed?

13 **A.** No.

14 **Q.** So with respect to that sentence, Lines 824
15 to 826, you're talking about how Rider ICR works,
16 aren't you?

17 **A.** I'm talking about how Rider ICR is derived.

18 **Q.** And, again, Mr. Rubin's exhibit reflects
19 revenue requirements associated with the capital
20 investments and capitalized O&M expense associated
21 with the accelerated Main Replacement Program;
22 isn't that true?

1 **A.** Mr. Ruben is using the same numbers in a
2 different manner and calculating revenue
3 requirements to support his exhibit.

4 **Q.** So it didn't -- it is not intended --
5 looking at the title of the exhibit and the numbers
6 and the columns and the years reported there, it's
7 not an attempt to reflect the numbers that will be
8 collected through Rider ICR, is it?

9 **A.** I'm not sure what Mr. Rubin's intentions
10 are.

11 **Q.** And then turning to the Page -- on
12 Lines 827 to 829. You indicate that the revenue
13 requirement for -- would be 9.6 million in year
14 2001 and capped at 29.8 million in years 2012 and
15 2013; is that right?

16 **A.** That's correct.

17 **Q.** And, again, there you're referring to the
18 amount to be capped under the operation of Rider
19 ICR; is that right?

20 **A.** That's correct.

21 **Q.** And those would be amounts collected
22 through Rider ICR?

1 **A.** Those would be amounts billed through ICR.

2 **Q.** Billed. Okay.

3 But that is the maximum amount of money
4 that could be collected from ratepayers, is that
5 your testimony, in those years?

6 **A.** That's the maximum amount that would be
7 billed to ratepayers.

8 **Q.** Okay? Now, you say -- and the next line
9 these amounts are much lower than the 28.1, 43.6
10 million and 60 million showing in years 2012 --
11 2011, 2012 and 2013 of AG CUB 6.06, do you see
12 that?

13 **A.** Yes, I do.

14 **Q.** Now, again, those amounts based on the
15 information contained in AG CUB 6.06, are not the
16 amounts -- not representing the amounts billed, are
17 they?

18 **A.** They're not related to Rider ICR.

19 **Q.** Right.

20 Those are the revenue requirement
21 numbers; is that correct?

22 **A.** Those are Mr. Rubin's revenue requirement

1 numbers.

2 Q. You would agree, wouldn't you, that revenue
3 requirement numbers are different than the revenue
4 amounts billed under Rider ICR?

5 A. Mr. Rubin's revenue requirements derivation
6 are different than the amounts that would be billed
7 under Rider ICR, yes.

8 Q. Right.

9 Well, revenue requirements aren't
10 necessarily billed under Rider ICR, are they? I
11 mean, there's an actual percentage calculation that
12 you explain in your testimony.

13 A. Well, can you repeat the question. I
14 thought I responded to your question.

15 Q. I believe my question was there's a
16 difference between what revenue requirement would
17 be generated by the planned Main Replacement
18 Program ending in the year 2030, as a result of
19 capital expenditures and capitalized O&M, there's a
20 difference between those numbers and the amounts
21 billed through Rider ICR; isn't it -- isn't that
22 true?

1 **A.** Are you referencing the numbers in
2 Mr. Rubin's exhibit?

3 **Q.** As revenue requirement numbers versus the
4 numbers that you reference that would be the basis
5 for Rider ICR surcharges.

6 **A.** I haven't verified the numbers in
7 Mr. Rubin's 6.06, but they purport to show revenue
8 requirements and they do differ from the amounts
9 that would be billed under Rider ICR.

10 **Q.** Correct.

11 In fact, Rider ICR does not bill overall
12 revenue requirement numbers associated with the
13 accelerated main infrastructure, does it?

14 **A.** I'm not quite sure I understand your
15 question.

16 **Q.** Well, as I understand the calculation
17 associated with the tariff, the Rider ICR collects
18 a return of and on the actual investment associated
19 with those six plans along with capitalized O&M
20 expenditure amounts; is that correct?

21 **A.** Yes.

22 **Q.** If we could go to your Exhibit 1.14.

1 **A.** Can you give me a moment?

2 **Q.** Sure.

3 **A.** You're going to 1.14?

4 **Q.** Yes. Revised.

5 **A.** Revised.

6 Sorry. I have a lot of paper here.

7 **Q.** It's okay. Take your time.

8 **A.** I have it.

9 **Q.** Now, VG 1.14 revised is the Company's bill

10 impact statements associated with Rider ICR charge

11 percentage; is that correct?

12 **A.** It shows a derivation of the charges that

13 would be filed with the Commission and included on

14 that page is a bill impact for Rate 1 customers.

15 **Q.** Page 1, 2 and 3 correspond to years 2011,

16 2012 and 2013, respectively; is that correct?

17 **A.** Yes.

18 **Q.** And, first of all, the difference --

19 there's a difference between the sales customer

20 charges and the transportation customer charges.

21 Is that associated with Account 904, those

22 differences?

1 **A.** It's associated with those differences as
2 well as certain transportation program related
3 charges that are applied to transportation
4 customers.

5 **Q.** Okay. Now, when you say, Transportation
6 charges applied to those customers, I mean, the
7 amounts listed on those three pages are lower for
8 the transportation customers. So I'm just trying
9 to understand why that is. In addition to the
10 uncollectables treatment through Account 904, what
11 other --

12 **A.** Some of those charges are credits.

13 **Q.** And what kind of credits would those be?

14 **A.** There's a storage credit.

15 **Q.** Any others?

16 **A.** No, that's it for account.

17 **Q.** Now, I believe Mr. Marano testified that
18 there would be a five-year ramp up associated with
19 an accelerated Main Replacement Program. Do those
20 bill impact statements -- estimated bill impacts
21 correspond with that ramp up that Mr. Marano
22 references?

1 **A.** The numbers used in this exhibit are taken
2 from those used in Mr. Marano's exhibit. So I
3 assume that they are. And they include those costs
4 associated with the ramp up.

5 **Q.** And for -- to the extent that the ramp up
6 is a five year -- over a five year period, we would
7 assume then that these surcharges would increase by
8 some percentage in the years 2014 and 2015?

9 **A.** You'd have to go to Mr. Marano's testimony
10 to see what the costs are beyond 2013. My exhibits
11 only show impacts through 2013.

12 **Q.** Do you know if the Company conducted any
13 estimated bill impacts beyond 2013 associated with
14 the ramp up described by Mr. Marano?

15 **A.** I'm not aware of any bill impacts that's
16 been computed.

17 **Q.** Finally, if you could turn to Page 52 of
18 your rebuttal testimony. Lines 1143, 1144 you
19 discuss a response to -- or the Company's
20 acceptance of Ms. Hathhorn's recommendation that if
21 the Commission chose to adopt Rider ICR that an
22 annual internal audit would be conducted. Is that

1 the Company's position that you now agree with that
2 recommendation?

3 A. Yes.

4 Q. Do you know what that audit would look
5 like?

6 A. There were certain proposals that were made
7 by Miss Hathhorn. I do not have Miss Hathhorn's
8 testimony in front of me. But we did in a data
9 request provide a mockup of what that language
10 would like look like incorporating those proposals
11 made by Miss Hathhorn.

12 Q. And that would be the mockup of the tariff;
13 is that right?

14 A. Yes.

15 Q. So in terms of the actual audit itself,
16 would it be similar to, say, the Rider VBA audit
17 that was recently filed?

18 A. There is specific language in the proposed
19 ICR tariff that is not consistent with what's in
20 Rider VBA. So I would expect that the audits would
21 differ.

22 Q. And do you know how that audit would

1 function in terms of -- would it be just -- would
2 it be -- strike that.

3 Would that audit look like simply a
4 reconciliation of the amounts charged through Rider
5 ICR with the actual work performed in terms of
6 matching the amounts collected with the amounts
7 spent?

8 **A.** Again, I don't recall all of the
9 recommendations that were made by Miss Hathhorn
10 that the Company agreed to. So I'd have to review
11 the language to respond accurately to your
12 question.

13 **Q.** Do you have Miss Hathhorn's testimony here
14 today?

15 **A.** No, I don't.

16 **Q.** And do you know if, in fact, the Company --
17 as part that internal audit the Company would be
18 auditing, for example, construction invoices
19 associated with outside contractors who have done
20 work as a part of that audit?

21 **A.** Again, the language that was agreed to
22 based on the recommendations by Miss Hathhorn, I

1 don't recall what the specifics were. If I had
2 that in front of me I could better respond to your
3 questions.

4 Q. Okay. So for purposes of -- if someone is
5 trying to determine what an audit filed by Peoples
6 Gas would look like, we should refer to the tariff
7 for an understanding of exactly what would be
8 filed?

9 A. An updated tariff reflects what would be
10 included in any annual audit.

11 MS. LUSSON: Thank you, Miss Grace.

12 JUDGE MORAN: Staff is going next.

13 CROSS-EXAMINATION

14 BY

15 MR. FOSCO:

16 Q. Good afternoon. My name is Carmen Fosco
17 and I'm one of the attorneys representing Staff.

18 A. Good afternoon.

19 Q. Can you please refer to your surrebuttal
20 testimony Miss Grace at Page 23. My question is
21 this, at Lines 494 through 506 you discuss various
22 problems, issues, as well information that would be

1 needed to develop compliance rates if the
2 Commission were to approve certain adjustments; is
3 that correct?

4 **A.** I describe difficulties with providing the
5 baseline for Rider VBA, not compliance rates.

6 JUDGE HAYNES: Page 23?

7 MR. FOSCO: Yes.

8 JUDGE MORAN: What lines, Mr. Fosco.

9 JUDGE HAYNES: I see it. 494.

10 MR. FOSCO: Lines 494 through 506, basically the
11 whole paragraph on Page 23.

12 BY MR. FOSCO:

13 **Q.** Isn't that testimony about adjusting the
14 cost of service study for adjustments and sales
15 forecasts?

16 **A.** It's about a couple of things. It
17 addresses the detail that will be needed to
18 determine the new Rider VBA baselines arising from
19 the charges that would be approved in this
20 proceeding. It also addressed how the Companies
21 would need certain data to be allocated -- to be
22 shown for sales and transportation customers so

1 that Account 904 costs that will be recovered
2 through rates could be accurately derived.

3 **Q.** And aren't those adjustments also used
4 in -- and wouldn't those adjustments be used in
5 developing rates as well as the baselines? If
6 there was an adjustment, for instance, to sales
7 forecasts?

8 **A.** You can develop rates without monthly data.
9 You cannot develop the VBA baseline without monthly
10 data.

11 **Q.** Well, for the Company's compliance rates in
12 this docket is it your intent to insert all of the
13 final orders adjustments into these specific
14 accounts and the Company's cost of service study or
15 do you plan on developing compliance rates a
16 different way?

17 **A.** Again, you're asking about what was
18 discussed in Miss Hoffman Malueg's testimony. And
19 I do cite her testimony indicating that certain
20 details would be needed to determine new
21 underlining costs in the cost study.

22 **Q.** But I've moved on to a different question.

1 **A.** Okay.

2 **Q.** I am now asking about your intent at the
3 end of this case, if in developing compliance rates
4 the Company intends to insert all of the final
5 orders adjustments into specific accounts in the
6 Company's cost of service study or if it intends to
7 develop rates in some other manner?

8 **A.** Are you asking if the Company intends to
9 update its cost study?

10 **Q.** For purpose of -- yes, for purposes of
11 developing compliance rates.

12 **A.** Yes.

13 **Q.** So, for example, if the final order makes
14 an adjustments that decreases the proposed amount
15 to for charitable contributions, will the Company
16 insert that adjustment into the specific charitable
17 account in its cost of service study and then
18 develop revised rates based on that adjustment?

19 **A.** I'm not the cost of service witness, but
20 it's my understanding that the answer is yes.

21 **Q.** As the rates person, will you ask the cost
22 of service person to do that? I mean is that how

1 you plan on getting to your rates?

2 **A.** She's quite capable of doing what the order
3 requires.

4 **Q.** But will you use some output from the cost
5 of service study to develop rates?

6 **A.** I will output from the cost of service
7 study to develop final rates, yes.

8 **Q.** If you know, is it possible that some
9 adjustments in the final order may not be able to
10 be inserted into specific accounts in the cost of
11 service study?

12 **A.** I'm not the cost of service witness. I did
13 not prepare the cost of service study, so you'd
14 have to ask Miss Hoffman Malueg.

15 **Q.** Would you expect that if there are costs
16 that -- or adjustments that can't be inserted into
17 the cost of service study that it will be up to you
18 to determine how to adjust rates for those
19 adjustments?

20 **A.** I believe that Miss Hoffman Malueg will
21 quite capably consider any adjustments that's
22 ordered by the Commission in the Company's cost of

1 service studies.

2 Q. In your experience, has the Company's cost
3 of service witness in any case ever advised you
4 that that they were not able to insert a particular
5 adjustment into the cost of service study?

6 A. In the Company's last case, Docket No.
7 07-0241 and 07-0242 there was some difficulty. But
8 because we had quite capable people, they manage to
9 make it work.

10 Q. So you're not aware of any circumstances
11 where the Company has not been able to adjust its
12 cost of service study, to your knowledge?

13 A. For 904 --

14 Q. But I wasn't asking about that.

15 A. You asked me for a circumstance and I'm
16 giving it to you.

17 Q. Fine. Thank you.

18 A. Account 904 there was some difficulty
19 because what was reflected in the order was
20 somewhat circular in nature, so the Company did
21 have some difficulty accommodating that adjustment
22 in its cost of service study.

1 MR. FOSCO: Again, your Honor, I guess I would
2 move to strike that. That was not responsive to my
3 question. I was looking for an example of where
4 the Company has not been able to do it, not where
5 it was able to do it with some difficulty.

6 MS. KLYASHEFF: I think the --

7 JUDGE MORAN: I don't -- can you read the
8 question back, please.

9 (Whereupon, the record was read as requested.)

10 MR. FOSCO: That's my point. I asked if she's
11 aware where they have not been able to do it.

12 JUDGE MORAN: Well, you're asking for that yes
13 or no thing and I thin k --

14 MR. FOSCO: No, I'm asking her if she's aware
15 where they haven't been able to do it. And instead
16 she gave me an answer where she talks about Account
17 904 and not asking about that.

18 JUDGE MORAN: I understand. But I understand
19 Miss Grace's response was saying that, Hey, I do
20 recall there being a problem in this instance, but
21 we were able to resolve it. It wasn't --

22 MR. FOSCO: And, again, I'm still --

1 JUDGE MORAN: So you can still ask that
2 question, but I'm not striking it.

3 BY MR. FOSCO:

4 Q. My same question that I had pending, can
5 you answer that?

6 A. If your question asks was the Company
7 unable to accommodate something in the Commission's
8 final order and the cost of service study? The
9 answer is yes. The Company had to make an
10 adjustment for Account 904 outside the Company's
11 cost of service models because the order reflected
12 an allocation that was circular in nature and the
13 Company's model could not accommodate it.

14 Q. And how did the Company make that
15 adjustment?

16 A. The Company had to do it outside of the
17 model.

18 Q. I mean, do you know how that was done?

19 A. That's reflected in Miss Hoffman Malueg's
20 testimony.

21 Q. Other than that circumstance, are you aware
22 of any others where the Company has not been able

1 to incorporate adjustments into a cost of service
2 study?

3 A. I'm the rate design witness. I am aware of
4 that one situation.

5 Q. And that's -- so you've never had to come
6 up with a methodology on your own to implement an
7 adjustment to design compliance rates that were not
8 able to be incorporated into a cost of service
9 study?

10 A. I don't prepare cost of service studies.

11 Q. That's fine. But can you answer my
12 question, please?

13 A. Can you ask the question again.

14 MR. FOSCO: Can you read it back, please.

15 (Whereupon, the record was read as requested.)

16 JUDGE MORAN: Maybe the question is at what
17 point does the cost of service study end and that
18 person -- and Miss Grace takes over?

19 MR. FOSCO: Well, your Honor, I mean, I think my
20 question stands. I mean, it's just a general
21 question trying to understand if the Company --
22 maybe they haven't. And I guess that's what I'm

1 looking for, is for a clear answer. If they've
2 never had any other circumstance where they had to
3 adjust rates when --

4 JUDGE MORAN: And, again, I'm thinking that that
5 would have been more of a question for
6 Miss Hoffman.

7 MR. FOSCO: Why? She's the cost of service
8 witness, not the rate design rates. She doesn't
9 file compliance rates. She does the cost of
10 service study --

11 JUDGE MORAN: And so then when -- when would she
12 consult with Miss Grace? Maybe that's the
13 question.

14 MR. FOSCO: That is not my question, your Honor.

15 JUDGE MORAN: Okay.

16 MR. FOSCO: Can I get an answer to my question?
17 Or is there some objection pending to it? And I
18 don't know what it is if there is.

19 JUDGE MORAN: But the witness is -- okay. Let
20 the witness maybe explain.

21 Miss Grace.

22 THE WITNESS: The cost of service witness passes

1 to me revenue requirements for rate design. I use
2 those revenue requirements for rate design. I've
3 never had to adjust those revenue requirements
4 other than to implement the equal percentage of
5 imbedded cost methodology which has been accepted
6 by the Commission Staff to allocate the increase to
7 Rates 1 and Rates 2.

8 BY MR. FOSCO:

9 Q. Thank you.

10 If you know, and you may not, if
11 adjustments are incorporated into the cost of
12 service study, does the Company intend to submit to
13 Staff as part of its compliance filing a road map
14 as to how those adjustments were made or where they
15 were made in the cost of service study? And,
16 again, if you know.

17 A. I don't know.

18 (Whereupon, there was a
19 change of reporters.)
20
21
22

1 If you could refer to Page 36, your
2 surrebuttal testimony. At lines -- in the question
3 and answer that runs from Lines 59 through Line 73
4 on Page 4, you indicate that you disagree with Ms.
5 Harden's characterization of your proposal,
6 correct?

7 **A.** I address the way that Ms. Harden
8 characterizes the Account 904 issue. The Company's
9 witness Joylyn Hoffman Malueg classifies Account
10 904, I use Account 904 to set rates for sales and
11 transportation customers.

12 **Q.** Okay. But you indicate in response to the
13 question, do you agree with Staff Witness
14 Ms. Harden's statement that Ms. Grace proposes to
15 change the allocation method, in brackets, for
16 Account No. 904 costs, closed brackets, from the
17 current allocation, based on the respective
18 customer demand and commodity charges to a customer
19 charge allocation only, end quote.

20 And then your answer starts, no, my
21 direct and rebuttal testimonies propose how to
22 differentiate the recovery of, in italics, gas cost

1 related, end italics, Account 904 uncollectible
2 accounts expense in the utilities rates for sale
3 and transportation customers and not how total 904
4 costs should be allocated. Do you see that?

5 **A.** Yes, I do.

6 **Q.** My question is, if, in the question, you
7 inserted gas cost related Account 904 uncollectible
8 account expense, would your answer have been the
9 opposite then, that you do do that, with respect to
10 gas cost related Account 904 uncollectible
11 expenses?

12 **A.** I don't take gas cost related uncollectible
13 expenses and classify it into the three components
14 that you just stated.

15 **Q.** Right, but her -- Ms. Harden's statement
16 was about changing the current allocation. And I'm
17 trying to understand what the nature of your
18 disagreement with Ms. Harden's characterization is.
19 Is it that you totally disagree that you change the
20 allocation or is it only the fact that her
21 statement was not specific enough so as to indicate
22 that it's, using your italicized language, gas cost

1 related Account 904 costs?

2 **A.** Her statement is inaccurate. The
3 allocation of Account 904 costs is handled in a
4 cost of service study and is allocated among the
5 different types of classes. As the rate design
6 witness, I derive rates that determines how those
7 costs, which are reflected in the cost of service
8 study, should be reflected in rates for sales and
9 transportation customers.

10 **Q.** So is the nature of your disagreement that
11 it was a different witness and not you that did the
12 change? Again, I'm trying to understand.

13 **A.** The nature of my comment is that Ms. Harden
14 appears to combine the two issues and they are not
15 the same issues.

16 **Q.** Why did you italicize gas cost related?

17 **A.** Because rates for sales and transportation
18 customers are differentiated based on gas cost
19 related Account 904 expenses and not total Account
20 904 expenses.

21 **Q.** So is that the gist of your disagreement
22 with her characterization?

1 **A.** No, the gist of my disagreement is the
2 inference that I allocate Account 904 into demand,
3 customer and commodity components.

4 **Q.** Do you agree that the Companies currently
5 allocate Account 904 uncollectible accounts expense
6 based on the respective customer demand and
7 commodity charges as ordered by the Commission in
8 its last rate case, in the Companies last rate
9 cases?

10 **A.** I believe that's a question that's better
11 asked to Ms. Hoffman Malueg.

12 **Q.** So you don't know if that's the case? Do
13 you have an understanding?

14 **A.** My understanding is that the order
15 reflected a directive to allocate such costs among
16 those three classes.

17 **Q.** Now, is it correct that you are
18 recommending that gas costs related to Account 904
19 uncollectible accounts expense to be recovered from
20 customers be differentiated between sales and
21 transportation customers?

22 **A.** Yes, I am making that proposal.

1 **Q.** Let's move on to a different topic.

2 JUDGE MORAN: And what is that topic? It would

3 be nice if you would tell the witness.

4 MR. FOSCO: And I intend to, I was kind of

5 signaling.

6 JUDGE MORAN: And that hasn't been done before

7 and I like it.

8 BY MR. FOSCO:

9 **Q.** And this is regarding sales forecast.

10 Would you agree that if a change in the sales

11 forecast is significant, then such a change should

12 be incorporated into a cost of service study and

13 the rate design?

14 **A.** Can you repeat the question?

15 **Q.** Sure. Would you agree that if a change in

16 the sales forecast is significant, then such a

17 change should be incorporated into both the cost of

18 service study and the rate design for the Company?

19 **A.** Can you explain better what you mean by

20 change?

21 **Q.** If the projected sales forecast increases

22 or decreases significantly.

1 **A.** Increases or decreases beyond the test year
2 sales?

3 **Q.** Beyond the forecasted test year sales, yes.

4 **A.** Only if it's proven to be accurate.

5 **Q.** But with that assumption, would you agree
6 that both the cost of service study and the rate
7 design should be adjusted to reflect that change in
8 sales forecast?

9 **A.** If the Commission approves a sales
10 increase, I agree that it should be reflected in
11 the cost of service as well as the derivation of
12 rates.

13 **Q.** Thank you. Now, we're switching to Rider
14 VBA. If you would refer to Page 5 of your
15 surrebuttal testimony. At Lines 113 through 114,
16 you testify that Rider VBA operates exactly as
17 approved by the Commission and it is theoretically
18 sound and all calculations computed under the Rider
19 are accurate. And my question is, would you agree
20 that if something is sound it is complete and
21 thorough?

22 **A.** You would have to he elaborate, that's too

1 general.

2 Q. What did you mean by sound?

3 A. It recovers revenues and in the manner that
4 it should so it gets back to the baseline that was
5 approved by the Commission.

6 Q. Would you agree that something is sound if
7 it is likely to produce correct results?

8 A. Yes.

9 Q. And the term theoretically sound, can you
10 indicate what you meant by the word theoretically?

11 A. In terms of?

12 Q. In terms of your testimony on Lines 113 and
13 14 you refer to --

14 A. The formula that is presented in Rider VBA
15 and has been approved by the Commission is based on
16 sound ratemaking principles. So I used the term
17 theoretically sound.

18 Q. Did you or anyone else, excuse me, I'm
19 going back to a prior issue, the gas cost related
20 uncollectible expense. Did you ask Ms. Malueg to
21 reassign gas cost related uncollectible cost to the
22 customer demand and commodity components in her

1 study?

2 A. No.

3 Q. In your direct testimony, and maybe we can
4 refer to your Peoples testimony, at Page 1516, you
5 discuss amounts that were billed under Rider VBA;
6 is that correct?

7 A. Yes.

8 Q. When you -- and would you agree that, for
9 instance, on Page 16, when you state from May 2008
10 through February 2009, about 1.7 million will have
11 been refunded to Peoples Gas SC No. 1 customers.
12 Would you agree that that's a forecast, not actual?

13 A. No.

14 Q. Isn't it based on forecasted therms?

15 A. It's based on forecasted therms, so in that
16 sense it is. But the amount, the dollars are not
17 forecasted. The dollars are based on a prior
18 2-month period.

19 Q. And to the extent that the forecasted
20 therms are more or less than forecasted, the actual
21 refund will be more or less than intended for the
22 monthly amount, correct? Let me backup, I can

1 break it down. The VBA provides for a per therm
2 adjustment in the effective month; is that correct?

3 A. Yes.

4 Q. So -- and since that amount is designed to
5 get the desired overage or underage, based upon
6 forecasted therms, if actual therms are more than
7 forecasted, then more -- a greater amount than
8 calculated will be refunded or charged; is that
9 correct?

10 A. Yes, there is a reconciliation process and
11 amounts are refunded or recovered from customers.

12 Q. Now, under Rider VBA, there is also an
13 annual reconciliation; is that correct?

14 A. There is only an annual reconciliation.

15 Q. Okay, there is an annual reconciliation
16 factor, correct?

17 A. Yes.

18 Q. And that formula compares the amounts
19 that -- the actual margin per customer for the
20 relevant time period against the rate case margin,
21 correct?

22 A. Yes.

1 **Q.** And then it adds to or subtracts from that,
2 the amount collected through Rider VBA; is that
3 correct?

4 **A.** Yes.

5 **Q.** And that amount that is added to or
6 subtracted, is it just the amounts that were billed
7 during the calendar year? In other words, for 2008
8 is it just the amounts that were billed from May
9 through December 2008 or does the annual
10 reconciliation include amounts billed in January
11 and February of the next year for the months of
12 November and December of the prior year?

13 **A.** It's amounts that were billed through the
14 end of the calendar year.

15 **Q.** And I believe you testified that at this
16 point in time the Companies have -- strike that.

17 Would you agree that the Company needs
18 to file compliance -- a compliance filing
19 indicating the margin revenues based upon the
20 Commission's final order in this docket?

21 **A.** Yes.

22 **Q.** Will the Company agree to make that a

1 public filing? Is there anything confidential
2 about the margin revenues that can't be publically
3 disclosed?

4 **A.** I don't know what you mean by public
5 filing.

6 **Q.** Well, normally you would submit a
7 compliance filing just to Staff; isn't that
8 correct?

9 **A.** Yes.

10 **Q.** Would the Company agree to make a filing in
11 the docket itself, as well as submitting it to
12 Staff, that includes the margin revenues under
13 Rider VBA under the Commission's final order?

14 **A.** I can't agree to that at this hearing. I
15 am not my own boss.

16 **Q.** Are you aware of anything in such a filing
17 that would be confidential?

18 **A.** No.

19 **Q.** Would you agree that it's fair to customers
20 to know what the margin revenues are under Rider
21 VBA as determined in the Companies most recent rate
22 case?

1 **A.** I can't say what's fair or not.

2 MR. FOSCO: Your Honor, I'm down to my last line,
3 and I actually think -- we actually just have some
4 documents are we starting -- I believe this would
5 be the first cross exhibit for Ms. Grace. Are we
6 starting at 1 for each witness?

7 JUDGE MORAN: No, it would be Staff Cross Exhibit
8 Grace 5.

9 MR. FOSCO: I will have 5 and 6.

10 JUDGE MORAN: Okay, that's fine.

11 MR. FOSCO: Your Honor, I have identified for the
12 record the Peoples Gas response to Staff Data
13 Request OGC 3.01 as ICC Staff Exhibit Grace 5. And
14 I have identified North Shore's response to Staff
15 Data Request OGC 3.01 as ICC Staff Exhibit Grace 6.

16 (Whereupon, ICC Staff Cross
17 Exhibits Nos. 5 and 6 were
18 marked for identification
19 as of this date.)

20 BY MR. FOSCO:

21 **Q.** Ms. Grace, are you familiar with these data
22 request responses?

1 **A.** Yes, I am.

2 **Q.** And the response was prepared by you or
3 under your direction and control?

4 **A.** Yes, they were.

5 MR. FOSCO: Your Honor, we had a line of cross,
6 and if your Honors would agree to the admission of
7 these cross exhibits, we would not need to go into
8 the details.

9 JUDGE MORAN: Do you want to stipulate to that,
10 can you?

11 MS. KLYASHEFF: The Company agrees.

12 JUDGE MORAN: Okay. By stipulation they are
13 going in.

14 (Whereupon, ICC Staff Cross
15 Exhibits Nos. 5 and 6 were
16 admitted into evidence as
17 of this date.)

18 MR. FOSCO: Thank you, your Honor, I have no
19 further cross.

20 MR. JOLLY: The City has no cross.

21 MR. TOWNSEND: Thank you, your Honor.

22

1

2

CROSS EXAMINATION

3

BY

4

MR. TOWNSEND:

5

Q. Good afternoon, Ms. Grace.

6

A. Good afternoon.

7

Q. Chris Townsend on behalf of Interstate Gas

8

Supply of Illinois, Inc., a member of the Retail

9

Gas Suppliers. You're testifying on behalf of both

10

Peoples Gas and North Shore Gas in this

11

consolidated docket, correct?

12

A. Correct.

13

Q. And you are manager of gas regulatory

14

services for Integrys Business Support, LLC?

15

A. Yes, I am.

16

Q. And that organization provides services to

17

both Peoples Gas and North Shore Gas, correct?

18

A. That's correct.

19

Q. Now, unless I specify otherwise in a

20

question, please assume my questions relate to both

21

Peoples and North Shore, okay?

22

A. Yes.

1 **Q.** And when I refer to the Companies, I'm
2 referring to both Peoples and North Shore, all
3 right?

4 **A.** I understand.

5 **Q.** And unless you specify in your answer, I'll
6 assume for the record that your answer applies
7 equally to both North Shore and Peoples, all right?

8 **A.** I understand.

9 **Q.** Now, as manager of gas regulatory services
10 for Integrys Business Services, you are familiar
11 with the operations of both Peoples Gas and North
12 Shore Gas, correct?

13 **A.** I am familiar with certain operations, yes.

14 **Q.** Well, you are familiar with the various
15 service options and other programs that the
16 Companies offers to customers, right?

17 **A.** Yes.

18 **Q.** So, for example, in this proceeding, you
19 provided testimony about the Choices For You
20 Program that is available to residential and small
21 commercial customers, right?

22 **A.** I provided testimony related to certain

1 charges applicable to those riders.

2 Q. And in the last Peoples/North Shore rate
3 cases, ICC Dockets 07-0241 and 0242, you provided
4 testimony about the Companies energy efficiency
5 programs, right?

6 A. About the rider that the Company was
7 proposing to recover energy efficiency costs, yes.

8 Q. And that energy efficiency program is the
9 same program that Mr. Schott testified on cross
10 examination about this morning and addresses in his
11 testimony in this case, correct?

12 A. I testified on Rider EEP.

13 Q. I'm sorry, is that the same as the Energy
14 Efficiency Program that Mr. Schott testifies about?

15 A. That program has a name, but my testimony
16 was on Rider EEP.

17 Q. And the Chicagoland Natural Gas Savings
18 Program is a subset of the offering underneath
19 Rider EEP?

20 A. Yes.

21 Q. And would you agree that the Chicagoland
22 Natural Gas Savings Program is appropriately

1 designed to treat customers fairly?

2 MS. KLYASHEFF: Objection, beyond the scope of
3 the witness' testimony. She does not talk about
4 Rider EEP and certainly not about this specific
5 program.

6 MR. TOWNSEND: This actually, we'll tie this all
7 together, because fortunately we do have a witness
8 here who is familiar with the Rider EEP and the
9 Energy Efficiency Program and the Choices For You
10 Programs. And so what I would like to do is
11 explore the difference between the way in which
12 she's testified about the Rider EEP program, the
13 Energy Efficiency Program, in the prior rate case
14 and the way in which she's testifying about the
15 Choices For You costs in this case.

16 So if you'll provide me with a little
17 bit of latitude, we'll go through each of those and
18 then bring them back together at the end. Because
19 I do think that she's familiar with both.

20 JUDGE MORAN: What was the question again that
21 you had pending before the objection came in?
22 Please repeat that.

1 MR. TOWNSEND: I think that the question was,
2 would you agree that the Chicagoland Natural Gas
3 Savings Program is appropriately designed to treat
4 customers fairly.

5 JUDGE MORAN: I would have to ask if Ms. Grace is
6 an expert on that program. Are you?

7 THE WITNESS: No, I'm not.

8 MR. TOWNSEND: But is she an expert on the rate
9 design of the Rider EEP underneath which those --
10 underneath which the costs are recovered?

11 THE WITNESS: I testified on Rider EEP, not the
12 Chicagoland program.

13 MR. TOWNSEND: So if we rephrase that to be Rider
14 EEP, instead of the Chicagoland program, I'll
15 withdraw that question and focus it instead on
16 Rider EEP, which she has provided expert witness
17 testimony about.

18 JUDGE MORAN: I'm just having problems with us
19 bringing in testimony on a program that is not in
20 front of us. Why are we talking about EEP? EEP
21 was 2 years ago, it's obviously gone through some
22 changes, revisions and stuff, and you have all of

1 this to cross examine the witness on. I mean, I
2 don't understand why --

3 MR. TOWNSEND: It's a method to impeach the
4 process that she's suggesting, in order to recover
5 the costs.

6 JUDGE MORAN: Well, first you have to ask her
7 about the process she's suggesting before you can
8 even ever think of impeaching with something else.

9 MR. TOWNSEND: We already know what she's
10 testified about in her direct testimony and so
11 rather than asking her to go back through that, and
12 like I said, we'll tie them back up together at the
13 end, but these are inconsistent approaches.
14 Underneath the EEP --

15 JUDGE MORAN: And can't you do that just on
16 brief, I guess, is what I'm trying to go to. If
17 you are trying to draw an analogy with one thing or
18 another, or an inconsistency with one thing or
19 another, you can do that without the vehicle of
20 cross examination.

21 I mean, I find it very difficult to ask
22 any witness to remember something or testify on

1 something that is not at issue here. EEP is not at
2 issue here. It's unfair to the witness. You are
3 talking about unfairness here, I mean that's unfair
4 to the witness.

5 MR. TOWNSEND: This witness is testifying about
6 how it is appropriate to recover costs. And what
7 we're doing is we're exploring the ways in which
8 the Company has testified it's appropriate to
9 recover costs. We say that it's appropriate to
10 recover the costs for the Choices For You program
11 from all customers. They say no, you should just
12 recover it from the Choices For You customers.

13 We've got a specific example where this
14 witness has testified about the way in which Energy
15 Efficiency Programs should be recovered. And they
16 say that those should be recovered from all
17 customers, not just from the customers that take
18 benefits from those programs.

19 JUDGE MORAN: But it seems to me that you are
20 talking policy now, okay. And you're asking that
21 of a rate design witness.

22 MR. TOWNSEND: Well, this is a rate design

1 witness who talks about the theory of rate design,
2 what is theoretically appropriate underneath rate
3 design. And really all I want her to do in this
4 cross examination is recognize the fact that she
5 has this inconsistency, I don't have this other
6 testimony in this record. If I could walk her
7 through that testimony.

8 JUDGE MORAN: And that's another thing, how fair
9 is it to this witness if you don't have it? I
10 don't want to, in any way, impede the development
11 of your theory, okay. But I think that you have to
12 find a way to do that with this witness that is
13 fair to her.

14 MR. TOWNSEND: We have a prior inconsistent
15 statement that has been recorded.

16 JUDGE MORAN: Then where is it? I don't
17 understand, where is the prior inconsistent
18 statement?

19 MR. TOWNSEND: If we can walk through this, we
20 can explain how in the one case she said that it
21 should be recovered from all eligible customers.
22 And in this case she's saying it should just be

1 recovered from, not all eligible customers, but
2 instead just the customers who take service.

3 JUDGE MORAN: First, if you are going to do
4 that, you are going to lay a foundation with this
5 witness. You are going to have to ask her what she
6 remembers of that testimony, what she can testify
7 to, anything you have to refresh her recollection.
8 It's got to be done in a way that's fair.

9 MR. TOWNSEND: And I appreciate that.

10 JUDGE MORAN: And limited, okay. We're not going
11 to waste time on something that -- if you can
12 develop it independently.

13 MR. TOWNSEND: And again, perhaps I can approach
14 the witness now and provide a copy of her prior
15 testimony. But at this point, I'm just -- I'm
16 asking her about that -- the program that she had
17 provided the rate design testimony for, she had
18 justified the way in which it was designed in the
19 last rate case. But let me provide her with this
20 testimony and then we'll see if we can proceed from
21 there.

22 JUDGE MORAN: And lay a foundation as to what her

1 duties were as the rate designer. And I'm giving
2 you really a lot of latitude.

3 MR. TOWNSEND: It's appreciated.

4 (Whereupon, RGS Cross
5 Exhibits Nos. 7 and 8 were
6 marked for identification
7 as of this date.)

8 BY MR. TOWNSEND:

9 Q. Ms. Grace, I'm handing you what's been
10 marked as RGS Cross Exhibit Grace 7. And if you
11 could please take a minute and review that and let
12 me know when you're done.

13 A. All pages?

14 Q. Again, it's a 6-page document entitled the
15 Direct Testimony of Valerie H. Grace, Manager of
16 Rates Department, of Peoples Gas and Light --
17 Peoples Gas Light and Coke Company, in Docket
18 No. 07-0241. The North Shore Gas Company proposed
19 general increase in rates for gas service. And I
20 guess, in particular, I would like you to focus, as
21 you read through this, at Lines 773 to 774 and 828
22 to 830. Let me know when you're finished, please.

1 **A.** I'm finished.

2 **Q.** Ms. Grace, would you agree that Rider EEP
3 is appropriately designed to treat customers
4 fairly?

5 **A.** EEP is designed to appropriately recover
6 costs.

7 **Q.** And EEP is appropriately designed to avoid
8 unfair cross subsidization, correct?

9 **A.** In proposing Rider EEP I did not address
10 any issues related to fairness in my testimony.
11 It's designed to appropriately recover costs.

12 **Q.** Do you believe that Rider EEP is consistent
13 with the cost causation principles of rate design?

14 **A.** Yes.

15 **Q.** And when you presented this testimony in
16 the last rate case, you were the manager of the
17 rates department for both Peoples and for North
18 Shore, correct?

19 **A.** Yes.

20 **Q.** And this was a program that was offered in
21 that case both for Peoples and for North Shore,
22 correct?

1 **A.** Yes.

2 **Q.** And you presented testimony with regards to
3 that rate for both Peoples and North Shore,
4 correct?

5 **A.** That's correct.

6 **Q.** And I'm handing you what's being marked as
7 RGS Cross Exhibit Grace 8. And please let me know
8 when you've finished reviewing that.

9 JUDGE MORAN: And are there certain lines in
10 particular?

11 MR. TOWNSEND: Yes, it's a 4-page document,
12 actually I believe it's 5, it's a cover and 4
13 substantive pages. And it's entitled the Direct
14 Testimony of Valerie H. Grace, Manager, Rates
15 Department, Peoples Gas Light and Coke Company.
16 ICC Docket 07-0242. And the heading is the Peoples
17 Gas Light and Coke Company proposed general
18 increase in rates for gas service.

19 And in particular I would like you to
20 review Lines 882 to 883 and Lines 938 to 940 in
21 that document. And let me know when you're done,
22 please.

1 **A.** Can you repeat those lines again, I was
2 reading?

3 **Q.** It's 882 to 883 and that's on Page 40 of
4 53, there. And then Lines 938 to 940, which is on
5 Page 42.

6 JUDGE MORAN: And have you finished reading them,
7 Ms. Grace?

8 THE WITNESS: Yes, I have.

9 JUDGE MORAN: Then put your questions to the
10 witness.

11 BY MR. TOWNSEND:

12 **Q.** So in the last rate case on behalf of the
13 Companies you advocated that each and every member
14 of the eligible rate classes pay for Rider EEP,
15 correct?

16 **A.** That's correct.

17 **Q.** And the Companies obviously knew that not
18 all of the eligible customers would take advantage
19 of the program offered under Rider EEP, correct?

20 **A.** The Company had no way of knowing how many
21 customers would take advantage, so yes, that's
22 correct.

1 **Q.** In fact, there was some opposition in that
2 case on the basis that customers who were eligible
3 would not use the program and therefore should not
4 have to pay for it, correct?

5 **A.** I don't recall.

6 **Q.** If I showed you the order in that case,
7 might it help refresh your recollection?

8 **A.** If you give something to read, yes.

9 **Q.** I'll hand you what's been previously marked
10 as RGS Cross Exhibit Schott 4. And I direct your
11 attention to the bottom of Page 163. It's the
12 second page of this document, first page after the
13 cover. And this is the order in the consolidated
14 docket.

15 And there it states that Staff considers
16 the program unfair, the utilities note, because not
17 everyone will necessarily participate. Right?

18 **A.** That's the way it reads.

19 JUDGE MORAN: I think an order like that speaks
20 for itself and so there is nothing that you need to
21 question this witness on to use it in any manner
22 you wish.

1

2 BY MR. TOWNSEND:

3 Q. Do you now recall that there was some
4 opposition to Rider EEP charges being assessed to
5 all customers who were eligible for those programs?

6 A. I'm aware with how Rider EEP charges are
7 assessed to customers, yes.

8 Q. I'm sorry, my question was about in that
9 case. Do you recall the opposition to the way in
10 which the rider was designed?

11 A. My testimony didn't address any of this
12 opposition, so I'm reading it now and I read what
13 is stated, but I'm not familiar with the
14 opposition, no.

15 Q. Since the last rate case, the Companies
16 have been charging a monthly fee to all eligible
17 customers to pay for the cost of Rider EEP,
18 correct?

19 A. Yes.

20 Q. Now, like the Rider EEP programs, the
21 Choices For You program is available to all members
22 of the relevant classes, right?

1 **A.** It's available to all customers of certain
2 rate classes, yes.

3 **Q.** Neither the Rider EEP programs or the
4 Choices For You Program is restricted to a
5 particular number of customers, right?

6 **A.** No.

7 **Q.** And neither program is restricted to
8 customers in a particular location in your service
9 territories, right?

10 **A.** No.

11 **Q.** I'm sorry, you are agreeing with me?

12 **A.** I'm agreeing.

13 **Q.** And would you agree that the number of
14 customers that take service under each program
15 would impact the costs that the Companies incur to
16 offer the program?

17 **A.** Could you repeat that question?

18 **Q.** Would you agree that with both the Rider
19 EEP programs and the Choices For You Program, that
20 the number of customers that take service under the
21 program impacts the costs that the Companies incur
22 to offer the program?

1 **A.** The number of customers who take service
2 under the program impacts the cost? They are two
3 different animals.

4 **Q.** In terms of the administrative costs, if
5 you have more customers taking service underneath
6 the Rider EEP programs, you have higher
7 administrative costs, correct?

8 **A.** I'm not familiar with how the
9 administrative costs are determined. I'm familiar
10 with how they are recovered from customers, but I'm
11 not familiar with the administration of the program
12 and how that correlates with the number of
13 customers. I assume that it does, but I don't
14 know.

15 **Q.** And again, with regards to the Rider EEP
16 Programs, the Companies charge all eligible
17 customers for the administration of the program,
18 regardless of whether or not they take service
19 under any of the Rider EEP programs, correct?

20 **A.** Rider EEP recovers incremental costs from
21 all customers that are eligible for the programs.

22 **Q.** Regardless of whether or not they take

1 service underneath any of the programs, correct?

2 A. Yes.

3 Q. But regarding the Choices For You
4 administrative charges, the Companies only charge
5 those customers that take service underneath the
6 Choices For You Program for the administration of
7 that program?

8 A. You can't compare the two, they are
9 entirely different.

10 MR. TOWNSEND: Move to strike the answer. Not
11 asking her to compare the two, I was just asking
12 whether or not, underneath the Choices For You
13 administrative charges are charged to all customers
14 that take service underneath those programs.

15 JUDGE MORAN: I think that does call for a yes or
16 no answer.

17 THE WITNESS: Can you repeat the question?

18 BY MR. TOWNSEND:

19 Q. Would you agree that under the Choices For
20 You Program, administrative charges are charged
21 only to those customers --

22 JUDGE MORAN: Could we make that question a

1 little less clumsy? Are the charges under the
2 program...

3 BY MR. TOWNSEND:

4 Q. Are the charges underneath -- strike that.
5 Are the administrative charges
6 underneath the Choices For You Program charged only
7 to those customers that take service underneath the
8 Choices For You Program?

9 A. I believe those charges are assessed to
10 suppliers who participate in the program and not to
11 customers.

12 Q. The administrative charges you think are
13 charged only to suppliers?

14 A. The admin charges based on the number of
15 accounts that are serviced by the supplier. And I
16 believe that they are billed to the supplier under
17 Rider AGG.

18 Q. But those charges are not charged to all
19 customers who are eligible in the class, correct?

20 A. They are not charged to customers at all,
21 they are charged to suppliers.

22 Q. The Companies do not charge administrative

1 costs associated with the Choices For You program
2 to customer who take traditional utility service,
3 correct?

4 **A.** The charges are assessed in Rider AGG,
5 which is a service that is offered to
6 transportation programs. And because Rider AGG is
7 not applicable to retail sales customers, Rider AGG
8 charges don't apply.

9 **Q.** Is it your understanding that Rider AGG
10 suppliers recover that cost as part of doing
11 business in the Peoples and North Shore system?

12 **A.** I'm not a supplier, I can't tell you how
13 they recover those costs.

14 **Q.** You wouldn't assume that they would recover
15 that as part of their cost of doing business?

16 MS. KLYASHEFF: Objection, the witness indicated
17 she does not know.

18 JUDGE MORAN: She doesn't know, she's not here to
19 assume.

20 BY MR. TOWNSEND:

21 **Q.** Suffice to say the Companies do not recover
22 the administrative costs associated with

1 administering the Choices For You program in their
2 base rates, correct?

3 **A.** Choices For You admin charges are base rate
4 charges.

5 **Q.** Are base rate charges that are recovered
6 from all customers?

7 **A.** You asked -- could you repeat the question?

8 **Q.** Would you agree that the administrative
9 costs associated with the Choices For You program
10 are not charged through the Companies' base rates,
11 but rather are charged only to the suppliers who
12 participate in the Choices For You program?

13 **A.** No, I don't agree with that statement,
14 because admin charges are base rate charges.

15 **Q.** So the administrative costs associated with
16 Choices For You should be charged to all eligible
17 customers for Choices For You?

18 **A.** That's not what I'm saying. I'm saying
19 that the admin charges under Rider AGG are based on
20 charges that are charged to suppliers and not
21 customers.

22 **Q.** So they are not -- the administrative

1 charges are not recovered through customers' base
2 rate charges correct?

3 **A.** They are recovered through base rate
4 charges that are billed to suppliers.

5 JUDGE MORAN: Okay, I think we've gone through
6 that. That's the answer, I've heard it three
7 times.

8 BY MR. TOWNSEND:

9 **Q.** Your aware, aren't you, that in the Nicor
10 choice program, that Nicor recovers its costs to
11 administer its choice program from all customers
12 who are eligible for the choice program?

13 MS. KLYASHEFF: Objection, I don't know of any
14 basis for assuming this witness is aware of a Nicor
15 gas rate.

16 JUDGE MORAN: Again, trouble with the phrasing of
17 your question, Mr. Townsend. Don't say you are
18 aware, aren't you. Say are you aware.

19 BY MR. TOWNSEND:

20 **Q.** Are you aware that Nicor recovers its costs
21 to administer its choice program from all eligible
22 customers?

1 **A.** I'm not familiar with the Nicor program.

2 **Q.** You're aware that Mr. Crist recommends that

3 Peoples and North Shore mirror the Nicor program in

4 terms of the recovery of these costs, right?

5 **A.** I've read what's in Mr. Crist's testimony,

6 yes, but I'm not familiar with the Nicor program.

7 **Q.** So even after reading his testimony you

8 didn't do any independent investigation of the

9 Nicor tariffs?

10 MS. KLYASHEFF: Objection, badgering.

11 JUDGE MORAN: Sustained. If you have a question.

12 BY MR. TOWNSEND:

13 **Q.** Did you perform any investigation of the

14 Nicor tariffs and their cost recovery mechanism

15 after Mr. Crist presented his testimony in this

16 case?

17 **A.** There was no reason to, no.

18 **Q.** Would you agree that the Choices For You

19 customers should not be cross subsidizing customers

20 who take traditional utility service under the PGA?

21 **A.** The PGA isn't the subject of this

22 proceeding. The PGA?

1 **Q.** Under traditional utility service, so under
2 traditional utility service, the way in which the
3 utilities recover the gas costs is underneath the
4 PGA, correct? Under the purchase gas adjustment
5 clause, correct?

6 **A.** Okay, can you reword your question?

7 **Q.** Would you agree that Choices For You
8 customers should not be cross subsidizing customers
9 who take traditional utility service?

10 **A.** I agree.

11 **Q.** Would you likewise agree that the
12 Companies' rates should be designed so that the
13 Companies are indifference as to whether the
14 customers remain on traditional utility service or
15 purchase gas from an alternative supplier?

16 **A.** Can you repeat that question?

17 **Q.** Would you agree that the Companies' rates
18 should be designed in a way so that the Companies
19 are indifference as to whether the Company takes
20 service underneath the traditional utilities
21 service or in the competitive market from an
22 alternative supplier, that there shouldn't be a

1 penalty to the customer for taking service from an
2 alternative supplier?

3 **A.** The Company designs its rates so that it's
4 fair to all customers, as far as supply services
5 versus utility service. Other than costs that are
6 caused by transportation customers and costs that
7 are caused by sales customers, that's how those
8 charges should be differentiated.

9 **Q.** So any difference between the rates charged
10 to the two different sets of customers, the
11 traditional utility customers and the choice
12 customers, should be based on costs, correct?

13 **A.** It should be based on their costs, yes, the
14 cost of providing service to those customers.

15 **Q.** We've talked about the administrative
16 charges and that the Retail Gas Suppliers advocate
17 that those costs should be recovered through base
18 rates to customers, correct? That's what we've
19 been talking about is the administrative charge,
20 correct?

21 **A.** We've been discussing the administrative
22 charges, yes.

1 **Q.** There also is another charge that's charged
2 to the retail suppliers, the LDC option costs,
3 correct?

4 **A.** Yes.

5 **Q.** And the LDC option charge is based on an
6 optional billing service that is offered to
7 suppliers that are serving the customers in the
8 Choices For You Program, correct?

9 **A.** Yes.

10 **Q.** And underneath that LDC option, the
11 utilities render the bills to the Choices For You
12 customers for the charges specified for the
13 supplier, correct?

14 **A.** Yes.

15 **Q.** And retail gas suppliers propose that the
16 LDC option costs also should be recovered through
17 base rates to customers, correct?

18 **A.** That's the RGS suppliers' testimony, yes.

19 **Q.** The Choices For You Program is not an
20 experiment, is it?

21 **A.** No.

22 **Q.** It's not a pilot program?

1 **A.** No.

2 **Q.** And you have no expectation -- strike that.

3 Do you have any expectation that the

4 Choices For You program will be eliminated by the

5 Commission?

6 **A.** I can't speculate on what the Commission

7 will do.

8 **Q.** But you don't, sitting here today, have an

9 expectation that they'll repeal that program, do

10 you?

11 **A.** I don't have an expectation, no.

12 **Q.** Can you turn to your rebuttal testimony at

13 Page 64, Lines 1413 through 17, and let me know

14 when you're there, please. It's Page 64 of the

15 rebuttal testimony, Lines 1413.

16 **A.** I'm there.

17 **Q.** And there you suggest that the Companies'

18 Choices For You administrative charges are similar

19 to the Companies' bad debt recovery charges,

20 correct?

21 **A.** Similar in the sense that they are specific

22 to certain groups of customers.

1 **Q.** And you suggest that the Companies charge
2 rates to sales customers that are higher than the
3 rates that are charged to Choices For You
4 customers, because the Companies recover the sales
5 customer bad debt only from the sales customers,
6 correct?

7 **A.** That's correct.

8 **Q.** Are Choices For You customers in any way
9 eligible to create sales customers bad debt? Can
10 they in any way impact the level of sales
11 customers' bad debt?

12 **A.** No.

13 **Q.** And can Choices For You customers impact
14 the cost that the Companies incur related to sales
15 customers' bad debt?

16 **A.** They don't cause those costs, no.

17 **Q.** Can Choices For You customers benefit, in
18 any way, from sales customers causing the Companies
19 to incur bad debt costs?

20 **A.** No, not that I'm aware of.

21 **Q.** But the Choices For You customers can
22 benefit from the Company offering Choices For You,

1 correct? Strike that.

2 Would you agree that all eligible
3 customers benefit from the Company offering Choices
4 For You?

5 **A.** All customers can participate in the
6 Companies' Choices For You Program. I wouldn't use
7 the word benefit.

8 **Q.** Well, having the option to participate is a
9 benefit to those customers, right?

10 **A.** It's an option that's available to our
11 customers, they may see it as a benefit.

12 **Q.** And all eligible customers can impact the
13 administrative costs that the Companies incur
14 associated with Choices For You, correct?

15 **A.** The Choices For You costs are caused by
16 Choices For You suppliers who are agents for the
17 customers. That's why those charges are billed to
18 suppliers.

19 **Q.** Let's move on to what makes up the
20 specifics of the administrative charge. The
21 administrative charge is \$1,317,557, correct?

22 **A.** That sounds in the ballpark.

1 Q. I think you actually testified to that.

2 A. I have a lot of pages.

3 Q. Do you have your Exhibit 1.10 available?

4 And you have separate Exhibits 1.10 for Peoples and

5 for North Shore?

6 A. Yes.

7 Q. Would you agree that Peoples has claimed

8 that the administrative costs associated with the

9 Choices For You program, for the Peoples system, is

10 a \$1.3 million, roughly?

11 A. Can you point to a particular reference?

12 Q. I'm sorry, it's underneath Line 5, Column

13 F, in each one of the Exhibits 1.10.

14 A. Okay, I found it.

15 Q. And you would agree it's roughly 1.3

16 million for Peoples?

17 A. Yes.

18 Q. And on the North Shore side, it's an

19 additional \$210,000, right?

20 A. Yes.

21 Q. So between the two companies, we're talking

22 about \$1.5 million in administrative costs for

1 Choices For You, correct?

2 A. Yes.

3 Q. Now, you are aware that in its testimony
4 the Retail Gas Suppliers challenge the basis for
5 those figures, right?

6 A. Well, first of all, if you look at the
7 testimony, if they're challenging the 1.3, the
8 amount that's the basis of the admin charges isn't
9 the 1.3, that exhibit reflects some deductions,
10 credits, so the amount that is the basis of the
11 admin charges are actually found on Line 10 of
12 Peoples Gas' exhibit. And Line 10 on North Shore
13 Gas' exhibit.

14 Q. But in the initial instance, the question,
15 the 1.3 level of costs, without focusing on the
16 additional deductions, correct?

17 A. The 1.3, which is the basis, but not used
18 to determine the charges, yes.

19 Q. Could you turn to your -- keep these
20 tabbed, if you would and keep them handy and turn
21 to your surrebuttal testimony at Lines 794 and 795.
22 It's at Page 36. Let me know when you're there.

1 **A.** I found it.

2 **Q.** And there you say, with respect to the \$1.3
3 million, that Exhibit VG 1.0 contains 21 lines of
4 detail, correct?

5 **A.** Yes.

6 **Q.** And you don't provide any other data to
7 support that figure, do you?

8 **A.** The data is all summarized on the exhibit
9 and 21 lines of detail for Peoples and 19 lines of
10 detail for North Shore Gas.

11 **Q.** And for the \$1.3 million, actually Exhibit
12 VG 1.0 doesn't provide 21 lines of detail to come
13 up with the \$1.3 million of costs, does it?

14 **A.** There is maybe two lines -- I can count
15 them all, I could count all the numbers, but there
16 is a significant amount of details, there is 21
17 lines on the exhibit and there is almost as many
18 costs as there are line numbers.

19 **Q.** Well, during discovery in this case, RGS
20 sent the Companies multiple data requests
21 specifically asking for additional detail regarding
22 the costs the Companies incur with regard to

1 administering the Choices For You Program, correct?

2 **A.** There were data requests asking about
3 historical costs.

4 **Q.** Do you have a copy of Mr. Crist's rebuttal
5 testimony?

6 **A.** Not with me, no.

7 **Q.** But you did review that testimony in
8 preparing your testimony, correct?

9 **A.** Yes, I did.

10 MR. TOWNSEND: And again, your Honor, this will
11 be introduced as an RGS exhibit when Mr. Crist
12 appears, but I would like to be able to have her
13 review a portion of that testimony prior to being
14 admitted into the record.

15 So with your indulgence we'll just hand
16 copies of this to the witness and ask her to review
17 that testimony prior to it being admitted into the
18 record.

19 JUDGE MORAN: And you're showing -- you provided
20 a copy of revised rebuttal testimony of James L.
21 Crist, RGS Exhibit 2.0, revised.

22 MR. TOWNSEND: That's correct.

1 JUDGE MORAN: Which has been prefiled in this
2 case.

3 MR. TOWNSEND: That's correct. It was actually
4 filed yesterday on e-docket. That is to say, the
5 original testimony was filed on August 4th, the
6 revised testimony was filed yesterday.

7 BY MR. TOWNSEND:

8 Q. Can you please turn to the attachment,
9 which is Exhibit 2.3 of that testimony, it's a
10 7-page document.

11 A. Um-hmm.

12 Q. Made up of responses to a number of data
13 requests. Do you see that?

14 A. Um-hmm.

15 Q. And the first page is Data Request RGS
16 1.42, which sought background information regarding
17 the costs that the Company has incurred regarding
18 providing service underneath the Choices For You
19 Program, correct?

20 A. Yes.

21 Q. And particularly those costs were
22 pertaining to information technology and computer

1 programs, correct?

2 A. Yes.

3 Q. And the response that you gave -- were you
4 responsible for the responses to these data
5 questions?

6 A. They were prepared under my supervision,
7 yes.

8 Q. The answer here, just refers to your direct
9 testimony and unspecified work papers and exhibits.
10 And then says that the requested information is not
11 maintained in and cannot be retrieved in the
12 requested level of detail, correct?

13 A. Yes.

14 Q. There was no level of detail that was
15 provided, actually, in response to this data
16 request, this is the sum and substance of the data
17 response, correct?

18 A. Historical data, as stated in the data
19 request, is not maintained in the level of detail
20 requested.

21 Q. And likewise, in Data Request 1.43, that
22 looks for direct and indirect costs associated with

1 customer education, communications, advertising,
2 correct?

3 A. Yes.

4 Q. And again, there was no actual data that
5 was provided, correct?

6 A. Yes.

7 Q. And 1.46 sought information about call
8 center costs, historical data, and, again, no
9 specific data was provided. And instead it was
10 just noted that the requested information is not
11 maintained and cannot be retrieved in the requested
12 level of detail, correct?

13 A. Yes.

14 Q. 1.47 looked for information about billing
15 costs that the Companies incur and the same answer,
16 right?

17 A. Yes.

18 Q. 1.48 looked for costs about the
19 development, implementation and administration and
20 maintenance of the Choices For You Program. And
21 the Companies provided the same answer, right?

22 A. Yes.

1 **Q.** 1.50 sought information about the monthly
2 billing fee. Your answer notes that the monthly
3 billing is related to the LDC billing option
4 service, correct?

5 **A.** Yes.

6 **Q.** And this answer notes that the charge in
7 question, quote, recovers the cost associated with
8 developing, enhancing and maintaining the billing
9 systems to provide the billing service, as well as
10 expenses associated with printing, mailing customer
11 bills. The basis for these charges and related
12 work papers were approved in Docket No. 01-0470,
13 close quote, correct?

14 **A.** Yes.

15 **Q.** And so there was no basis for these charges
16 in this rate case, correct?

17 **A.** No, that's not correct.

18 **Q.** The basis for the charges in related work
19 papers were approved in a prior docket?

20 **A.** Okay, yes, these were approved in a prior
21 docket, yes.

22 **Q.** Not in this docket?

1 **A.** Not in this docket, I misunderstood.

2 **Q.** And there was no additional data presented

3 in this docket with regards to the billing systems,

4 correct?

5 **A.** There was no data presented in response.

6 We did not propose a change to LDC billing option,

7 so we could not present any data for the LDC

8 billing option.

9 **Q.** And actually, we talked about data request

10 1.47, which is on Page 4 here. Again, we asked

11 about the actual costs that were incurred and

12 that's where, again, you said that the information

13 is not maintained by the Companies, correct?

14 **A.** These are costs in connection with

15 segregating choices from new customers from other

16 customers. You mean 1.47?

17 **Q.** 1.47 asked for costs associated with

18 billing services, correct?

19 **A.** 1.47?

20 **Q.** Provide a detail --

21 **A.** Okay, developing new or separate billing

22 procedures, yes.

1 **Q.** So the billing costs are not maintained by
2 the Company as a separate line item, correct?

3 **A.** Right.

4 (Change of reporter.)

5 **Q.** And then finally we've got 1.53 that asks
6 for labor costs associated with Choices For You and
7 there's just a response that says, The Company does
8 not have call center employees that are dedicated
9 only to the Choices For You calls; correct?

10 **A.** Correct.

11 **Q.** Is there any other information that
12 itemizes the costs associated with Choices For You
13 labor?

14 **A.** Yes. It's shown on Exhibit VG 1.10. The
15 Company has a department, Gas Transportation
16 Services, that is responsible for servicing the
17 Companies' Transportation Programs. They do not
18 serve retail sales customers, they serve the
19 suppliers that participate in the Companies'
20 Transportation Programs.

21 If you look on Line 1 it says, Gas
22 Transportation Services, labor. Gas Transportation

1 Services serve the Transportation Programs and does
2 not serve retail customers.

3 Q. Okay. And when you say "that first line,"
4 that first line is actually a lot of different
5 things including the billing that we talked about,
6 right, suppliers support, customer inquiries,
7 that's what the Column B indicates, it's the
8 explanation of that Gas Transportation Services
9 labor; correct?

10 A. That's a brief summary of the work that's
11 provided by Gas Transportation Services.

12 Q. And this data request asks for additional
13 detail regarding those costs; right?

14 A. Call Center. The Call Center is different
15 than Gas Transportation Services. The Call Center
16 services all the Companies' customers, all 1
17 million customers. Gas Transportation Services is
18 a department that services only the Companies'
19 Transportation Programs.

20 Q. Do you have more information regarding
21 customer inquiries, additional backup for the
22 charges that you didn't provide in response to

1 these series of data requests?

2 **A.** There are no Call Center employees that
3 take calls only from Gas -- from Transportation
4 customers or Choices For You customers, there is a
5 department, again, that services the Gas
6 Transportation Program. They do not take calls
7 from Choices For You customers.

8 **Q.** The data request asked for information
9 regard information with the costs associated with
10 customer inquiries. Is there some additional data
11 that could be provided to us about the specific
12 costs associated with answering customer inquiries
13 for Gas Transportation Services? Do you keep that
14 piece of information in the level of detail that
15 we've asked for in -- for all of the offer things
16 or would the response be the same, that it's not
17 maintained at that level?

18 **A.** I think the response is clear. It says,
19 The Company does not have Call Center employees
20 that are dedicated only to Choices For You calls.

21 **Q.** Okay. Do you -- does the Company have
22 additional information related to the costs it

1 incurs to answer customer inquiries related to
2 Choices For You beyond this sum total that's in
3 Line 1, Column F?

4 **A.** Line 1, Column F, again, that's a
5 department that services only the Companies'
6 Transportation Programs. As far as a Call Center
7 that takes calls only from customers, the customers
8 do not call Gas Transportation. Choices For You
9 customers do not call Gas Transportation Services,
10 they call the Companies' main number and that's the
11 same number that's available to all of our million
12 customers as I understand it.

13 **Q.** Now, I guess what's getting me confused
14 here is that under the Function Activity, one of
15 the things that's listed -- and it's kind of small
16 type -- but it says that it includes the costs
17 associated with customer inquiries. Do you see
18 that in the second line underneath the Column B --

19 **A.** Yes.

20 **Q.** -- Function Activity?

21 **A.** Yes, I see that and I'll give you further
22 explanation of that particular description.

1 There's certain large volume suppliers and these
2 costs are applicable to all of the Companies'
3 Transportation Programs who ship for themselves,
4 they work with the supplier but they call all the
5 shots, if you will, and those customers do directly
6 call the Companies Trans- -- the Companies' Gas
7 Transportation Services Department, so that's one
8 of -- I guess one type of customer that would call.
9 The customers that are served by Choices For You
10 call the main number and not Gas Transportation
11 Services.

12 **Q.** So are Choices For You customers paying
13 part of the costs associated with answering
14 customer inquiries that are made by the large
15 customers?

16 **A.** No. The department is broken down. Gas
17 Transportation Services, such that there are a
18 group of employees who handle the large volume
19 programs and a group of employees who handle the
20 small volume program.

21 **Q.** So with regards to the customer inquiry
22 question, does the Company -- do the Companies --

1 strike that.

2 With regards to customer inquiries, do
3 the companies break out the costs attributable to
4 Choices For You customers versus other
5 transportation customers?

6 **A.** What type of costs are you referring to?

7 **Q.** Costs associated with customer inquiries
8 because...

9 **A.** I'll try to make this as clear as I can
10 possibly can. It's my understanding the Company
11 has a Gas Transportation Services Department.
12 There is a group dedicated employees who service
13 the large volume programs and a group of employees
14 who service the small volume program. There are
15 certain large customers who do manage their own gas
16 suppliers and those customers will call the group
17 that manages the large volume program.

18 Customers who participate in the
19 Companies' small volume program, there's over
20 50,000 customers, a small group of dedicated
21 employees and Gas Transportation Services do not
22 take those calls, those calls go to the Companies'

1 main Call Center.

2 Q. And so is it fair to say that the Companies
3 don't know what costs they incur to answer inquiries
4 from Choices For You customers?

5 A. The Company does not differentiate the
6 costs of a Choices For You customer or a sales
7 customer calling our Call Center. There is a cost
8 to answers calls that applies to all customers.

9 Q. And that's a fair rate design; right?

10 A. I'm telling you how costs are incurred. We
11 haven't addressed rate design.

12 Q. How are those costs recovered then?

13 A. Which costs are you referring to?

14 Q. How are the costs associated with Choices
15 For You customers calling the Call Center
16 recovered?

17 A. Those are recovered -- part of those costs
18 are recovered through the customer charge.

19 Q. Applicable to all customers?

20 A. All customers can call our Customer
21 Relations Center and all customers would pay
22 through their -- part of those costs through the

1 customer charge but because the customer charge is
2 not set at full cost, some of those charges are
3 recovered through non-customer-type charges.

4 Q. But it's appropriate for the Choices For
5 You customers and the sales customers to pay the
6 same charge for the Company offering its Call
7 Center?

8 A. And they do.

9 Q. I'm sorry, so that's a yes?

10 A. Yes, they do.

11 Q. And that's appropriate?

12 A. Yes.

13 Q. And why is it appropriate for that cost to
14 be spread out over all customers?

15 A. Because the Call Senter services all
16 customers.

17 Q. All customers are eligible to call the Call
18 Center?

19 A. And all suppliers are eligible to call Gas
20 Transportation services and the costs are allocated
21 amongst suppliers.

22 Q. And because all customers are eligible to

1 call the Call Center, it's consistent with the cost
2 causation principles that all customers be charged
3 for the Call Center; right?

4 **A.** Yes.

5 JUDGE MORAN: Counsel, how many questions do you
6 have left?

7 MR. TOWNSEND: I think I've just got one further
8 line.

9 JUDGE MORAN: Okay. Then before you start that
10 line, I want to ask you something about this
11 testimony. You said it was filed today?

12 MR. TOWNSEND: I'm sorry, it was filed yesterday
13 and circulated by e-mail.

14 JUDGE MORAN: Okay. Was it filed as a
15 proprietary exhibit? Were there two versions of
16 this testimony filed because as we were sitting
17 here, I noticed that there are two exhibits
18 attached to this that are marked proprietary and I
19 just want to make sure it's been marked
20 proprietary.

21 MR. TOWNSEND: And I appreciate that concern and
22 we actually now are going to have to file another

1 version of this just so the record is clear. It's
2 my fault for not catching it. We touched base with
3 the Companies, we were wondering whether or not --
4 let me take a step back.

5 JUDGE MORAN: Okay.

6 MR. TOWNSEND: Those attachments were based on
7 information that the Retail Gas Suppliers received
8 from the Companies, that the Companies indicated
9 was proprietary information.

10 JUDGE MORAN: Right.

11 MR. TOWNSEND: And so -- although the retail
12 guess suppliers didn't view the information that
13 they used as being proprietary --

14 JUDGE MORAN: It's marked proprietary, it's
15 proprietary. It's nobody's views or anything and
16 if you wanted it marked stricken, then you either
17 bring it to the ALJ or you discuss it amongst
18 yourselves but I have to be cautious about that,
19 it's one of our obligations here and if this has
20 been filed and unless you get an approval
21 immediately between the Companies --

22 MR. TOWNSEND: We already had it.

1 JUDGE MORAN: All right.

2 MR. TOWNSEND: That's where I was going, your
3 Honor.

4 JUDGE MORAN: Otherwise I was going to take it
5 out of e-Docket. All right.

6 MR. MOORE: If I could add, the testimony itself
7 didn't have numbers, it was the attachments and the
8 testimony was --

9 JUDGE MORAN: Right.

10 MR. MOORE: -- pre-filed yesterday, which isn't
11 proprietary, it's the attachments which are
12 proprietary and those were not filed yesterday.
13 There was actually a proprietary exhibit filed last
14 week, 2.2, which was done properly, a proprietary
15 version --

16 JUDGE MORAN: So, in other words, this is not --

17 MR. MOORE: -- not proprietary.

18 JUDGE MORAN: -- filing that you made today?

19 MR. MOORE: That's right. The testimony was
20 filed yesterday, but it doesn't have proprietary
21 numbers in it --

22 JUDGE MORAN: That's what I'm worrying about.

1 MR. MOORE: -- it's the exhibits that had them
2 and those have been done properly.

3 JUDGE MORAN: Okay.

4 MR. TOWNSEND: Actually, your Honors, we did
5 approach the Companies and asked them whether or
6 not they still viewed that as being a proprietary
7 exhibit. We never actually had the conversation as
8 to whether or not they thought that our exhibit was
9 proprietary. They've indicated that they do not
10 believe that that exhibit needs to be proprietary.

11 JUDGE MORAN: Okay. Right.

12 MS. KLYASHEFF: I believe the question was with
13 RGS 2.2. We said we do not consider RGS 2.2 to be
14 proprietary.

15 JUDGE MORAN: And what about the other one?
16 There's two things --

17 MS. KLYASHEFF: I don't -- they probably asked
18 about 2.1 and I don't have the answer.

19 JUDGE MORAN: Okay. I just want to make sure
20 that if it's filed on e-Docket it's done right.

21 MR. TOWNSEND: I appreciate it. And just --
22 Miss Klyasheff, if you could confirm, our

1 understanding is that 2.2 is just a summary of 2.1,
2 but we should get that all clarified before this is
3 offered into the record and we will and we
4 appreciate that. Thank you, your Honors.

5 BY MR. TOWNSEND:

6 Q. Switching gears, though we'll still stick
7 around the \$1.3 million charge, I'd like you to
8 turn to Page 36 of your surrebuttal testimony,
9 Lines 790 to 791.

10 A. Do I have to keep these pages marked?

11 JUDGE MORAN: We're on surrebuttal testimony?

12 MR. TOWNSEND: Surrebuttal testimony, Page 36,
13 Lines 790 and 791.

14 BY MR. TOWNSEND:

15 Q. Okay?

16 A. Yes.

17 Q. Now, you disagreed with Mr. Crist's
18 suggestion that the Companies are double dipping;
19 that is, double recovering certain costs -- or
20 maybe all of the costs included in the \$1.3 million
21 being charged by Peoples, the \$210,000 being
22 charged by North Shore; right?

1 **A.** Yes.

2 **Q.** And you say at Page 36 of your surrebuttal
3 testimony, That if the Companies were double
4 dipping, their proposed revenues would exceed the
5 revenue requirements which is not the case; right?

6 **A.** Yes.

7 **Q.** Now, that statement presumes that the
8 Companies are charging sales customers 100 percent
9 of the costs that sales customers should pay and
10 are charging Choices For You customers 100 percent
11 of the costs of what the Choices For You customers
12 should pay; correct?

13 **A.** Yes.

14 **Q.** That is --

15 **A.** The rates, yes.

16 **Q.** -- everything has been balanced and total
17 revenues match total revenue requirements; right?

18 **A.** Yes.

19 **Q.** But you would agree with me that it's
20 possible to remain in balance if some costs that
21 should be charged to sales customers are instead
22 charged to Choices For You customers?

1 **A.** That's possible, yes.

2 **Q.** Likewise, if the Company has improperly
3 inflated the Gas Transportation Services, the labor
4 costs for Choices For You customers and improperly
5 decreased other costs, the bottom line would still
6 remain in balance; right?

7 **A.** If one cost was increased and another cost
8 was decreased by the same amount, everything would
9 remain in balance.

10 **Q.** You would agree, wouldn't you, that under
11 the Public Utilities Act, the Companies bear the
12 burden of proof to justify their charges?

13 MS. KLYASHEFF: Objection. Calls for a legal
14 opinion.

15 BY MR. TOWNSEND:

16 **Q.** As a rate design expert, would you agree
17 that the Companies bear the burden of proof to
18 justify the design of their rates?

19 MS. KLYASHEFF: I'm not really sure who that's a
20 rate design question.

21 JUDGE MORAN: Yeah. Could you phrase it
22 differently than burden of proof? Can you ask that

1 same question without those legal terms?

2 BY MR. TOWNSEND:

3 Q. In this case, the Companies should justify
4 its overall charges; correct?

5 A. The Companies should present evidence to
6 support its charges, yes.

7 Q. And the Companies should provide
8 justification for each charge, not just the
9 aggregate of the charges; right?

10 A. For each charge that the Company is
11 proposing to change, the Company should provide
12 evidence to support such changes.

13 Q. Only for those that it intends to change?

14 MS. KLYASHEFF: I think we're back to the legal
15 question, who has what burden of proof?

16 JUDGE MORAN: Yeah.

17 MS. KLYASHEFF: And the witness has given her
18 understanding that --

19 MR. TOWNSEND: She's offered an analysis that
20 suggests that --

21 JUDGE MORAN: An analysis?

22 MS. KLYASHEFF: She's given her opinion about

1 what it is she thinks she has to prove.

2 MR. TOWNSEND: She's suggested that they only
3 have to -- the Companies only have to justify some
4 of the charges but if they're over recovering and
5 let me --

6 JUDGE MORAN: I don't think that that's fair to
7 the witness. You are trying to characterize --
8 we've got the witness here --

9 MR. TOWNSEND: Let me ask her that.

10 BY MR. TOWNSEND:

11 Q. Would you agree that if the Companies are
12 over recovering underneath some charge, then that
13 likewise should be evaluated within the context of
14 the case? So, for example --

15 JUDGE MORAN: And you know what, it really
16 doesn't matter what the witness thinks because
17 we're all going to have to follow the law as it is.
18 So maybe there's some better question we can go
19 with.

20 MR. TOWNSEND: That's all right. No further
21 questions. Thanks.

22 JUDGE MORAN: Did you get to answer that last

1 question or was there a last question pending?

2 MR. TOWNSEND: I think it was objected to and I

3 think you kind of sustained the objection, so I'm

4 trying to drop the question.

5 JUDGE MORAN: Okay. Then we are all kind of

6 okay.

7 MR. TOWNSEND: We are all kind of okay.

8 Thank you.

9 JUDGE MORAN: Sure.

10 MR. TOWNSEND: We do have some exhibits that

11 we'd like to move into evidence. RGS Cross Exhibit

12 Grace 7 and RGS Cross Exhibit Grace 8.

13 JUDGE MORAN: And are there any objections to

14 the admission of those exhibits?

15 MS. KLYASHEFF: Yes.

16 MR. FOSCO: Your Honor, I was just going to say

17 Staff has no objection, but we would ask that we

18 start a procedure -- because most parties don't

19 have enough copies -- that every one distribute

20 electronically copies of the cross exhibits. It

21 could be at the end of the hearing or...

22 JUDGE MORAN: Oh, absolutely, that's an

1 excellent idea and, really, everybody should start
2 bringing more of these cross exhibits to the
3 hearing because there are a lot of parties here
4 that are, you know, head parties that certainly
5 would like to know what is being discussed with the
6 witness.

7 MR. FOSCO: Subject to that qualification, Staff
8 has no objection.

9 JUDGE MORAN: But for today, we're going to let
10 it go because, obviously, we didn't give you that
11 proper direction, but we're going to follow Staff's
12 suggestion and have those exhibits 3-mailed.

13 Okay. Now, I'm sorry.

14 MS. KLYASHEFF: Notwithstanding a very lengthy
15 line of cross about Rider EEP and the rate design
16 of Rider EEP and these documents, I don't know that
17 any of the questions actually went to the
18 testimony. They went to Rider EEP, not what was in
19 this testimony, most of which has nothing to do
20 with cost recovery under Rider EEP.

21 MR. TOWNSEND: Actually, your Honors, we talked
22 specifically about the language that she used

1 within that testimony, the phrase "eligible
2 customers" is repeated in a couple of the lines
3 that we highlighted and my understanding is that
4 after reviewing that testimony, that's what she
5 testified about. So that appropriately puts it in
6 context.

7 JUDGE MORAN: Yeah, we're letting it in. We're
8 not going to comment on what it does or doesn't do.
9 It's been discussed on the record, it's going in.

10 MR. TOWNSEND: Thank you.

11 (Whereupon, RGS Cross
12 Exhibit Grace Nos. 7 and 8 were
13 admitted into evidence as
14 of this date.)

15 JUDGE MORAN: Does someone still have cross for
16 Miss Grace? It's redirect. Do you need a few
17 minutes, Miss Klyasheff? Are you ready? You tell
18 us.

19 MS. KLYASHEFF: Actually, I was ready to go with
20 a couple questions, but we can take a break, too.

21 JUDGE MORAN: Okay. Well, it's up to you. You
22 tell us.

1 MS. KLYASHEFF: I only have two, three, four
2 questions maybe.

3 JUDGE MORAN: Do you want to go? Okay. Fine.

4 REDIRECT EXAMINATION

5 BY

6 MS. KLYASHEFF:

7 Q. Miss Grace, is Rider EEP a cost recovery
8 mechanism?

9 A. Yes.

10 Q. Are there customers who actually take
11 service under Rider EEP?

12 A. Yes.

13 Q. Does Rider EEP only recover administrative
14 costs or are there other costs recovered through
15 EEP?

16 A. There are other costs in addition to the
17 administrative costs.

18 Q. You talked about Exhibit VG 1.10 in
19 response to several questions. Are the costs on
20 that exhibit for both the Small Volume and Large
21 Volume Transportation Programs?

22 A. Yes.

1 MS. KLYASHEFF: I have no further questions.

2 MR. TOWNSEND: No recross.

3 JUDGE MORAN: Anybody else?

4 (No response.)

5 JUDGE HAYNES: We have a question. We were

6 under the impression, I think from Mr. Schott's

7 testimony, that customers don't actually take

8 service under EEP, they could just get money for

9 Energy Efficiency upgrades, but not necessarily

10 service under EEP?

11 EXAMINATION

12 BY

13 JUDGE MORAN:

14 Q. Yeah, we don't know what the context of the

15 service is. In fact, that's why we were

16 questioning the use of that word?

17 A. I'll try to explain it as best as I can.

18 Rider EEP is the Companies rider for Enhanced

19 Efficiency Programs, there was a governance board

20 that was formed to implement programs that -- whose

21 costs are recovered under the rider. That program,

22 Chicagoland Energy Savings Program, is the umbrella

1 for the programs that are offered to customers for
2 which Rider EEP recovers the costs. Is that clear?

3 Q. Right. So it's not a service, it's a
4 program?

5 A. It's a --

6 Q. It is a program that customers can avail
7 themselves of or not?

8 A. Yes.

9 Q. Okay. Then it's certainly clear what
10 our --

11 A. Is that clear?

12 Q. So when Miss Klyasheff asked you about
13 whether customers take service under EEP, it's not
14 a utility service, it is a program opportunity?

15 A. I took the question to mean that it's
16 applicable to Service Classes 1 and 2.

17 Q. Oh, okay. Service classes but not -- now.

18 A. That's how I understand the question.

19 Q. Fine. That's clear for me.

20 JUDGE MORAN: Is it clear for you?

21 JUDGE HAYNES: Mm-hmm.

22 JUDGE MORAN: Okay.

1 THE WITNESS: Is it clear?

2 JUDGE MORAN: Yes. We have to be so careful

3 with that word "service."

4 Thank you so much. And you are excused.

5 And we're going to take a 7-minute break

6 and we'll come back with Mr. McKendry who I believe

7 has been sworn in.

8 (Break taken.)

9 Okay. We're ready to proceed.

10 MS. KLYASHEFF: Peoples Gas, North Shore calls

11 Witness McKendry.

12 JOHN McKENDRY,

13 called as a witness herein, having been previously

14 duly sworn, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY

17 MS. KLYASHEFF:

18 Q. Would you please state your name and

19 business address for the record.

20 A. My name is John McKendry. Business address

21 is 130 East Randolph Drive, Chicago, Illinois

22 60601.

1 **Q.** Do you have before you the following two
2 documents, rebuttal testimony of John McKendry with
3 the caption of this consolidated proceeding and
4 marked for identification as NS PGL Exhibit JM 1.0
5 and surrebuttal testimony of John McKendry with the
6 caption of this consolidated proceeding and marked
7 for identification as NS PGL Exhibit JM 2.0?

8 **A.** Yes.

9 **Q.** Do you have any changes or corrections to
10 either of these documents?

11 **A.** No.

12 **Q.** If I were to ask you the questions included
13 in those documents, would your answers be the same
14 as set forth therein?

15 **A.** Yes.

16 **Q.** Do these documents contain the sworn
17 testimony that you wish to give in this proceeding?

18 **A.** Yes.

19 MS. KLYASHEFF: Subject to cross-examination, I
20 move for admission of NS PGL Exhibit JM 1.0 which
21 was filed on e-Docket July 8th and NS PGL Exhibit
22 JM Exhibit 2.0 which was filed on e-Docket

1 August 17th.

2 JUDGE MORAN: Are there any objections to the
3 admission of either of these exhibits?

4 (No response.)

5 Hearing none, they're admitted and the
6 witness is tendered for cross.

7 (Whereupon, NS PGL
8 Exhibit JM Nos. 1.0 and 2.0 were
9 admitted into evidence as
10 of this date.)

11 JUDGE MORAN: Who will go first?

12 MR. TOWNSEND: Your Honors, I believe I'm the
13 only one that has reserved time for
14 cross-examination.

15 JUDGE MORAN: Great.

16 MR. TOWNSEND: I would note before we begin the
17 cross-examination, we did issue some data requests
18 with regards to Mr. McKendry's surrebuttal
19 testimony that have not yet been responded to.
20 We've agreed with the Company that we may be
21 submitting those responses to the data requests as
22 cross exhibits, although we won't hold Mr. McKendry

1 here in the room in order to be able to sponsor
2 those as cross exhibits. With your indulgence if
3 that works for you, it seems to work for the
4 Company and it works for us.

5 JUDGE MORAN: Okay.

6 MR. TOWNSEND: Thank you.

7 CROSS-EXAMINATION

8 BY

9 MR. TOWNSEND:

10 Q. Good afternoon, Mr. McKendry. Chris
11 Townsend on behalf of Interstate Gas Supply of
12 Illinois, Inc., a member of the Retail Gas
13 Suppliers.

14 A. Good afternoon.

15 Q. You've been in the room for some of the
16 cross-examination of the other Company witnesses
17 today; correct?

18 A. Yes.

19 Q. So we'll operate underneath the same ground
20 rules that we had established for them; that is,
21 that unless I specify otherwise in a question,
22 please assume the questions relate to both Peoples

1 Gas and North Shore. All right?

2 A. Yes.

3 Q. And when I refer to "the Companies," I'll

4 refer to both Peoples and North Shore. All right?

5 A. Okay.

6 Q. Unless you specify otherwise, I'll assume

7 your answers apply to both Peoples and North Shore.

8 Okay?

9 A. Okay.

10 Q. Have you made yourself familiar with the

11 pre-filed written testimony of James Crist, the

12 expert witness on behalf of the Retail Gas

13 Suppliers?

14 A. Yes.

15 Q. And Mr. Crist describes the Choices For You

16 program at Pages 3 to 5 of his direct testimony;

17 correct?

18 A. I don't have it in front of me, but I'll

19 agree.

20 Q. Would you agree that the Choices For You

21 Program provides customers with an alternative to

22 the traditional sales service where customers buy

1 their natural gas from Peoples or North Shore under
2 the regulated purchase gas adjustment mechanism?

3 **A.** Can you repeat the last part?

4 **Q.** The Choices For You Program gives customers
5 the option -- it gives residential and small
6 commercial customers the option to buy the
7 commodity of natural gas from alternative suppliers
8 rather than the utility; correct?

9 **A.** Correct.

10 **Q.** And if they purchase gas from the utility,
11 they'd be purchasing it underneath the purchase gas
12 adjustment mechanism; right?

13 **A.** Right.

14 **Q.** And Mr. Crist explains under the Choices
15 For You Program, the residential and small
16 commercial customers have the option to leave the
17 PGA rate and purchase the commodity of gas from the
18 alternative supplier; right?

19 **A.** Correct.

20 **Q.** And Mr. Crist notes that because the
21 Companies-- the utility companies are required to
22 pass the cost of gas on to customers through the

1 PGA mechanism with no mark up, that Peoples and
2 North Shore should be indifferent as to whether
3 customers remain on the PGA service or purchase gas
4 from an alternative supplier; correct?

5 A. I would agree.

6 Q. And you would agree with that
7 characterization as well; correct?

8 A. Correct.

9 Q. And you'd also agree with Mr. Crist's
10 observations that the terms and conditions set
11 forth in the Peoples and North Shore tariffs
12 related to the Choices For You Program impact what
13 the alternative suppliers can offer their
14 customers; correct?

15 A. I'm not sure I would agree it would impact
16 them.

17 Q. Well, those tariffs impact things like the
18 use of storage, delivery tolerances and various
19 charges to the alternative suppliers; correct?

20 A. I would say that the tariffs govern the
21 programs.

22 Q. The tariffs actually cover all three of

1 those areas that I just identified; correct?

2 **A.** There are tariffs that relate to those
3 three, yes.

4 **Q.** And by impacting those things, it does
5 impact what the alternative suppliers can offer to
6 their customers; correct?

7 **A.** I suppose it could. To what degree, that,
8 I don't know.

9 **Q.** And just to confirm, in this case, the
10 Companies did not propose to make any substantive
11 changes to the Choices For You Program; correct?

12 **A.** Correct.

13 **Q.** Not a single change, actually; right?

14 **A.** Correct.

15 **Q.** But you knew that the alternative suppliers
16 wanted to change the program, didn't you?

17 **A.** I wouldn't say I did, no.

18 **Q.** You weren't aware of the last rate case
19 where the alternative suppliers asked for changes
20 to the program?

21 **A.** Based on the last rate case, yeah, they had
22 some changes. On this rate case, I wasn't aware

1 that they wanted specific changes.

2 Q. You weren't aware that the alternative

3 suppliers had approached the utilities since the

4 last rate case to change some of the tariffs?

5 A. Prior to this filing?

6 Q. (Nodding head up and down.) For example,

7 in the merger case.

8 MS. KLYASHEFF: Objection. The merger case

9 was --

10 MR. TOWNSEND: It was actually before.

11 JUDGE MORAN: The merger case was before the

12 rate case.

13 BY MR. TOWNSEND:

14 Q. Are you a familiar with other approaches to

15 the Companies subsequent to the last rate case?

16 A. I'm not sure that I am.

17 Q. Okay. Are you familiar -- well, let me

18 hand this to you and see if you are familiar with

19 this. I'm handing you what is being marked as

20 RGS Cross Exhibit McKendry 9.

21

22

1 (Whereupon, RGS Cross Exhibit
2 McKendry No. 9 was
3 marked for identification
4 as of this date.)

5 BY MR. TOWNSEND:

6 Q. And this is entitled The Annual Report on
7 the Development of Natural Gas Markets in Illinois,
8 Illinois Commerce Commission, July 2007; correct?

9 A. Correct.

10 Q. Are you familiar with this report?

11 A. No, I'm not.

12 Q. Are you aware that the level of choice
13 within the Peoples Gas market is lower than --
14 strike that.

15 Are you aware that the level of
16 participation in the Peoples Gas Choice Program is
17 less than the level of participation in the Nicor
18 Choice Program?

19 A. No. I don't think I've ever compared the
20 two.

21 Q. You are aware that Mr. Crist in this case
22 has proposed a number of changes to the Choices For

1 You Program; right?

2 A. Yes.

3 Q. Let's talk about those. Mr. Crist has

4 proposed that the Company should honor a new

5 customer's choice to take service from an

6 alternative supplier right away instead of forcing

7 the new customer to wait for a month; right?

8 A. Something to that effect, yes.

9 Q. So when a customer moves to the service

10 territory, he says that the customer should be able

11 to immediately take service from an alternative

12 supplier rather than having to wait for a month and

13 take service for that first month from the utility;

14 right?

15 A. Right.

16 JUDGE MORAN: Excuse me. Are you talking about

17 a new customer to the service area?

18 MR. TOWNSEND: That's right. Somebody who just

19 moved in.

20 JUDGE MORAN: Okay. All right. I just want to

21 be clear.

22 BY MR. TOWNSEND:

1 **Q.** There's no legal reason you know of that
2 the Companies couldn't honor that request, is
3 there?

4 **MS. KLYASHEFF:** Objection.

5 **JUDGE MORAN:** Unless he's a lawyer, I don't
6 know --

7 **MR. TOWNSEND:** I'm just wondering if he thinks
8 that it's a legal requirement that they have to do
9 this.

10 **JUDGE MORAN:** You can answer, if you know.

11 **THE WITNESS:** Not to my knowledge.

12 **BY MR. TOWNSEND:**

13 **Q.** In your surrebuttal testimony at Page 8,
14 Line 169 you argue that making a customer wait is
15 quote, in the best interest of all parties,
16 unquote. Is that right?

17 **A.** I do.

18 **Q.** Now, you don't actually profess to know
19 what's in the best interest of a given customer, do
20 you?

21 **A.** I made the statement as it's tied to
22 administrative and billing issues.

1 Q. Well, each customer knows what's in its
2 best interest; right?

3 JUDGE MORAN: Again, that's maybe not the kind
4 of question --

5 MR. TOWNSEND: Fair enough.

6 BY MR. TOWNSEND:

7 Q. If a customer wants to start taking service
8 from an alternate supplier immediately and the
9 alternative supplier wants to start providing
10 service immediately, would you agree that it's in
11 the alternative supplier's best interest to begin
12 providing that service immediately?

13 A. I wouldn't say I know what the best
14 interest of the supplier is.

15 Q. In your surrebuttal testimony at Lines 171
16 to 172 you say that the one-month delay does not
17 drive supply choices towards system supply and away
18 from alternative suppliers. Do you see that?

19 A. I do.

20 Q. Has Peoples or North Shore done a study
21 that would support that statement?

22 A. Not to my knowledge.

1 **Q.** Did you provide any work papers that would
2 support that statement?

3 **A.** No, I have not.

4 **Q.** You also state that the practice of not
5 honoring the customer's request quote, prevents
6 administrative and billing problems from arising
7 when an account does not move to active for various
8 reasons; correct?

9 **A.** If -- you are referring to Line 170 and
10 171?

11 **Q.** Yes.

12 **A.** Yes.

13 **Q.** But if an account never goes active, then
14 by definition, there will never be a bill sent to
15 the customer regarding the new service; right?

16 **A.** It would be in a pending status, yes.

17 **Q.** And the customer would never receive a
18 bill; correct?

19 **A.** Correct.

20 **Q.** And, finally, you state that the
21 requirements of Senate Bill 171 establish a utility
22 notice and waiting period that the utilities must

1 honor; right?

2 A. Yes.

3 Q. So here you are kind of interpreting the

4 law as you understand it; right?

5 A. As we understand it.

6 Q. Well, that wasn't based on a conversation

7 with Counsel, was it?

8 A. Not that I recall.

9 Q. So that's your opinion; right?

10 A. What's my opinion?

11 Q. That the requirements of Senate Bill 171

12 establish a utility notice and waiting period that

13 the utilities must honor.

14 A. That's what I understand Senate Bill 171 to

15 be, yes.

16 Q. And have you reviewed Senate Bill 171?

17 A. I did.

18 MR. TOWNSEND: May I approach?

19 I'm handing you what is being marked as

20 RGS Cross Exhibit McKendry No. 10.

21

22

1 (Whereupon, RGS Cross Exhibit
2 McKendry No. 10 was
3 marked for identification
4 as of this date.)

5 BY MR. TOWNSEND:

6 Q. Do you recognize that as a 5-page excerpt
7 of Senate Bill 171?

8 A. I do.

9 Q. And I presume that you were talking about
10 the section -- subsection of Senate Bill 171 under
11 the heading which makes modifications to what's now
12 Section G of 220 ILCS 5/19-115. And Subsection G
13 begins on the second page of that document; right?
14 And perhaps, specifically, G-6 that you were
15 thinking of which is on the next to the last page
16 at the very bottom.

17 A. Correct.

18 Q. And you'd agree with me that the subsection
19 enacted by Senate Bill 171 relates to customers
20 that switch, correct, and that's the phrase that's
21 used in that Subsection 6, quote, electronic
22 receipt of a customer's switch; correct?

1 **A.** Yes.

2 **Q.** It refers to a customer switch and G-7

3 talks about the period of time after that notice of

4 the switch; correct?

5 **A.** Can you repeat that question?

6 **Q.** G-7 talks about the period of time after

7 the notice of the customer switch; correct?

8 **A.** It talks about that rescind period?

9 **Q.** Yes.

10 **A.** Yes.

11 **Q.** But this whole section, this whole

12 procedure is premised on there being a customer

13 switch; right?

14 JUDGE MORAN: Which section is premised?

15 BY MR. TOWNSEND:

16 **Q.** This whole subsection G, the G-6, the G-7

17 procedures that we're talking about, all of this is

18 talking about a switch; right, that's the language

19 that's used throughout. In 7-A, it refers to

20 switch and B, it refers to switch, in C, all of

21 this refers to the switch; right?

22 **A.** The switch is part of this Section G. It

1 talks about other things.

2 Q. Well, nowhere in this Section G or in
3 Section 171 does it talk about -- I'm sorry, Senate
4 Bill 171, does it talk about a new customer; does
5 it?

6 MS. KLYASHEFF: Are you asking about the
7 entirety of Senate Bill 171 or just Subsection G?

8 MR. TOWNSEND: The sections that he was
9 referring to when he talked about Senate Bill 171,
10 I think, or just Sub G. So let's just talk about
11 what you were referring to.

12 BY MR. TOWNSEND:

13 Q. Senate Bill 171, that new Subsection G of
14 19-115 is only applying to a customer's switch;
15 right? It doesn't apply to a new customer ?

16 JUDGE MORAN: Have you established that that is,
17 in fact, what the witness is relying on for his
18 testimony?

19 MR. TOWNSEND: I think that that's what we
20 talked about.

21 JUDGE MORAN: Okay.

22 MR. TOWNSEND: That this was the section he was

1 relying upon.

2 JUDGE MORAN: And have you presented the witness
3 with anything in the Senate Bill that talks about
4 new customers?

5 MR. TOWNSEND: I guess since we were talking
6 about new customers, I would have thought that that
7 would be the section he was looking to.

8 JUDGE MORAN: But is there --

9 BY MR. TOWNSEND:

10 Q. Is there some place else in Senate Bill 171
11 that refers to new customers that you were
12 referring to and not this procedure or were you
13 referring to this procedure?

14 JUDGE MORAN: It's kind of -- maybe hard. I
15 mean, how big is Senate Bill?

16 MR. TOWNSEND: You can take a look. If you
17 think that there was some place else you were
18 referring to -- but I think he's already said this
19 is what he was referring to.

20 JUDGE MORAN: Is there a question pending?

21 BY MR. TOWNSEND:

22 Q. Would you agree that this Subsection G-6

1 and G-7 applies to customer switches and not to new
2 customers?

3 A. It uses the word "switch".

4 Q. And "switch" means the customer going from
5 the utility to an alternate supplier or moving from
6 one supplier to another supplier; right?

7 A. I suppose that's what it is referring to.

8 Q. Okay. Would you agree that preventing
9 customer confusion is a worthy goal?

10 A. Yes, I would agree.

11 Q. Would you also agree that a process that is
12 simpler is less likely to cause customer confusion
13 than a process that's more complex?

14 A. I couldn't say that, no.

15 Q. Okay. Well, let's talk specifically in
16 this instance with regards to the new customers.
17 I'm handing you what's being marked as RGS Cross
18 Exhibit 11 -- I'm sorry, McKendry 11.

19 (Whereupon, RGS Cross Exhibit
20 McKendry No. 11 was
21 marked for identification
22 as of this date.)

1 BY MR. TOWNSEND:

2 Q. This is a one-page document entitled
3 Competing Proposals Related to New Customers. All
4 right?

5 JUDGE MORAN: Is this taken from any document or
6 is it just prepared for purposes of cross?

7 MR. TOWNSEND: It's illustrative, your Honor.
8 Thank you.

9 BY MR. TOWNSEND:

10 Q. At the top of that document, it describes
11 the Companies' approach related to new customers.
12 Do you see that?

13 A. I do.

14 Q. So let's assume that we've got a new
15 customer coming to the service area, the first box
16 suggests that the customer would sign up with an
17 alternative supplier; fair enough? Do you
18 understand what that means?

19 A. The first box reads, Customer Requests
20 credit balance?

21 JUDGE MORAN: I think you've gotten the wrong
22 one.

1 BY MR. TOWNSEND:

2 Q. All right. So now this probably makes a
3 little bit more sense to you, right?

4 Have you had a chance to take a look at
5 that now?

6 A. At least know what you're talking about,
7 yes.

8 Q. And you also know what we're going to be
9 talking about in a little bit, too.

10 So the first box says that the customer
11 signs up with an alternative supplier, you
12 understand that? Before the customer actually
13 begins taking service, the customer signs up with
14 an alternative supplier; right?

15 A. Right.

16 Q. And then in month one underneath the
17 Companies' approach, the customer would receive the
18 commodity service from the utility; correct?

19 A. When you say that, they're buying the gas
20 from the utility?

21 Q. That's right.

22 A. Yes.

1 Q. The commodity of natural gas would come
2 from the utility; right?

3 A. Okay.

4 Q. So despite the fact that they've said that
5 they want to buy from an alternative supplier,
6 they're receiving the commodity from the utility;
7 right?

8 A. Correct.

9 Q. And then in month two, the customer
10 receives a bill with no alternative supplier
11 charges but instead just utility charges; right?
12 That's what the customer would receive; right?

13 A. Okay.

14 Q. Do you agree?

15 A. Yes.

16 Q. And also in that month two, the customer
17 then begins to receive the commodity from the
18 alternative supplier as they request; right?

19 A. Where he.

20 Q. And then in month three, the customer
21 finally receives a bill with the alternative
22 supplier charges for the commodity; right?

1 **A.** Correct.

2 **Q.** Now, would you agree that the top row

3 accurately summarizes the process that is currently

4 in place for the Companies for new customers?

5 **A.** Yes.

6 **Q.** And then the bottom row describes the RGS

7 approach and, again, we'll try to walk through this

8 quickly.

9 Prior to entering into -- beginning to

10 receive service, the customer signs up with the

11 alternative supplier again. Do you see that?

12 **A.** Yes.

13 **Q.** And then right away month one, the customer

14 will receive the commodity from the alternative

15 supplier as requested; right?

16 **A.** Okay.

17 **Q.** And then the customer receives the bill

18 with the alternative supplier charges; right?

19 **A.** Okay.

20 **Q.** And then by month three, there is no

21 changes at all; right?

22 **A.** "No changes," what do you mean?

1 **Q.** The customer would, again, receive the bill
2 with the alternative supplier charges just like the
3 prior months.

4 **A.** Okay.

5 **Q.** Would you agree that the RGS approach is
6 simpler and less likely to lead to customer
7 confusion?

8 **A.** Not necessarily, no.

9 **Q.** You would agree that the Companies'
10 approach is more complex, wouldn't you?

11 **A.** Because of an extra box, I wouldn't say
12 it's more complex, no.

13 **Q.** From the customer's perspective, if the
14 customer is signed up with an alternative supplier,
15 wouldn't you think that the customer would expect
16 to receive the commodity service from the
17 alternative supplier?

18 **A.** I think they would expect to receive
19 service from the alternative supplier based on the
20 effective date that they're starting on the Choices
21 For You Program.

22 **Q.** And under the Companies' approach, you've

1 delayed that by a month; right?

2 **A.** It is delayed further than RGS's approach,
3 yes.

4 **Q.** And wouldn't you suggest -- wouldn't you
5 agree that that delay is more likely to result in
6 customer confusion?

7 **A.** I would not equate that to it, no.

8 **Q.** I didn't -- I'm sorry, I didn't mean to
9 suggest that in every case that the customer would
10 be confused; but compared to receiving the service
11 right away, wouldn't you agree that delaying
12 receiving that service by a month is more likely to
13 result in customer confusion?

14 **A.** No, I wouldn't.

15 (Change of reporters.)

16 **Q.** But you would agree from a customer
17 perspective that the RGS approach is simpler than
18 the proposal of the Utilities; right?

19 MS. KLYASHEFF: Asked and answered.

20 JUDGE MORAN: Asked and answered. Sustained.

21 BY MS. LUSSON:

22 **Q.** All right let's switch gears and talk about

1 the credit balance transfer. All right?

2 A. Okay.

3 Q. Mr. Crist has proposed that the Companies
4 should follow the customer's instruction and
5 directly transfer credit balances to the customer's
6 designated alternative supplier; correct?

7 A. Correct.

8 Q. That is to say when a customer starts to
9 take service from an alternative supplier, if the
10 customer has a credit balance with the Utilities
11 and directs the Utilities to provide that customer
12 balance to the alternative suppliers, Mr. Crist
13 says the Utilities should honor that request;
14 correct?

15 A. That's what he suggests.

16 Q. And, again, there's no legal reason that
17 you know of that the Companies couldn't honor that
18 request; right?

19 A. Not that I'm aware of.

20 Q. And in your surrebuttal testimony you
21 stated a concern over customer confusion and
22 customer complaints; right?

1 **A.** Do you have a line on that --

2 **Q.** Line 133, 134 in your surrebuttal

3 testimony.

4 **A.** And your question again was...?

5 **Q.** You stated a concern over customer

6 confusion and customer complaints; right?

7 **A.** Correct.

8 **Q.** Now, regarding complaints you don't

9 actually have a study or other evidence that this

10 would increase complaints, do you?

11 **A.** No, I don't.

12 **Q.** You're just speculating about that; right?

13 JUDGE MORAN: Have you read that whole

14 paragraph? There's more in that paragraph.

15 BY MS. LUSSON:

16 **Q.** You're speculating about the -- the

17 customer complaints would increase; correct?

18 **A.** That's correct.

19 **Q.** And the same with customer confusion. You

20 don't have a study that shows there would be an

21 increase in customer confusion?

22 **A.** I do not.

1 Q. And you're likewise speculating about that;
2 right?

3 A. Correct.

4 Q. There are no work papers to support either
5 one of those claims; right?

6 A. There is not.

7 Q. Would you agree that if a customer requests
8 that its credit balance be transferred and that the
9 request is not honored then that could result in
10 customer confusion?

11 A. Can you repeat that. If the customer
12 requests it?

13 Q. If the customer requests that its credit
14 balance be transferred to the alternative supplier
15 and that request is not honored, do you think that
16 would result in customer confusion?

17 A. If the customer were to request the credit
18 to be transferred we would give them the -- what
19 their option is for that credit.

20 JUDGE MORAN: And what is that option?

21 THE WITNESS: Well, it can be refunded or left
22 on the account.

1 BY MS. LUSSON:

2 Q. But it can't be transferred?

3 A. Currently it cannot be transferred.

4 Q. But it's the customer's balance; right?

5 It's the customer's money?

6 A. It's the credit on the customer's account.

7 Q. And the alternative suppliers act as the

8 agent for the customers; right?

9 A. Correct.

10 Q. So if the customer asks its agent to have

11 that balance be applied to the alternative

12 supplier's account, wouldn't you think that they

13 would expect that request to be honored?

14 A. They could expect it, but we don't offer

15 that option to transfer it to a third party.

16 JUDGE MORAN: So, in other words, they can

17 keep -- they can ask for a refund, in which case

18 you'd send them a check; right?

19 THE WITNESS: Correct.

20 JUDGE MORAN: Or they can keep it to pay the

21 charges that they're still going to be incurring as

22 Peoples Gas customers?

1 THE WITNESS: That's correct.

2 JUDGE MORAN: Because those charges are still

3 going to be there?

4 THE WITNESS: Correct.

5 JUDGE MORAN: All right. But what they can't do

6 is have the credit go to --

7 THE WITNESS: The third party --

8 JUDGE MORAN: -- the third party.

9 THE WITNESS: Correct.

10 BY MS. LUSSON:

11 Q. I'll hand you what's being marked as RGS

12 Cross Exhibit McKendry 12.

13 (Whereupon, RGS Cross Exhibit McKendry No. 12 was

14 marked for identification.)

15 BY MS. LUSSON:

16 Q. And this is one-page document entitled,

17 Competing proposals related to applying customers

18 credit balances; correct?

19 A. Correct.

20 MS. LUSSON: And, again, your Honors, this is

21 for illustrative purposes.

22

1 BY MS. LUSSON:

2 Q. And in the top line we've got the

3 Companies' approach, do you see that?

4 A. Yes.

5 Q. And in that situation the customer requests

6 the credit balance to be applied to the alternative

7 supplier, which is the first step; right?

8 A. Correct.

9 Q. And then the alternative supplier provides

10 a written request to the Utility, that's what

11 currently happens; correct?

12 A. Okay.

13 Q. And then at the end, the credit balance is

14 not applied to the alternative supplier, that's

15 what currently is happening; right?

16 A. Correct. We don't transfer the credit

17 balance to the alternative supplier.

18 Q. And underneath the RGS approach that's

19 proposed, the customer would also, again, request

20 that the credit be applied to the alternative

21 supplier; right?

22 A. Okay.

1 **Q.** The alternative supplier would then provide
2 the written request to the Utility; right?

3 **A.** Okay.

4 **Q.** But then the credit balance would be
5 applied to the alternative supplier?

6 **A.** Okay.

7 **Q.** Would you agree that it's less likely that
8 there would be customer confusion underneath the
9 RGS proposed approach?

10 **A.** Not necessarily, no.

11 **Q.** Would you agree that -- under the RGS
12 proposed approach the customer's request is being
13 honored?

14 **A.** Yes.

15 **Q.** And the customer's request is not being
16 honored underneath the Company's approach; correct?

17 **A.** Correct.

18 **Q.** Now, back in your surrebuttal testimony,
19 you suggest it could take 500 hours to make a
20 programming change to the Company's systems to
21 allow this credit balance transfer; right?

22 **A.** Where did you see that?

1 JUDGE MORAN: Page 7.

2 MS. LUSSON: Thank you.

3 BY MS. LUSSON:

4 Q. Line 136 of your surrebuttal testimony.

5 A. Yes.

6 Q. Now, you didn't provide any work papers
7 with regards to that estimate, did you?

8 A. No.

9 Q. And you're not saying that the Companies
10 cannot make the system change, just that it will
11 take some programmers some time; correct?

12 A. Correct.

13 Q. Do you know how much programmers are paid?

14 A. No, not necessarily.

15 Q. Do you agree that if they're paid \$200 an
16 hour then this would mean that it's just \$100,000
17 cost?

18 MS. KLYASHEFF: I'm going -- objection. I don't
19 know how we get to all this other in a
20 hypothetical. If they're paid \$10 an hour it will
21 cost \$5,000. There's no basis for the \$200 an hour
22 figure.

1 MS. LUSSON: It seemed kind of generous to me
2 that's why I came up with it.

3 JUDGE MORAN: And we don't know -- we're
4 lawyers.

5 MS. LUSSON: I might be in the wrong profession.
6 You're right, Judge.

7 JUDGE MORAN: We don't know if that's generous
8 or not for programmers.

9 MS. KLYASHEFF: It's also assuming that labor
10 hours are the only costs associated with the 500
11 hours.

12 JUDGE MORAN: And, again, that's something that
13 could have been put in your...

14 MS. LUSSON: I mean, his testimony suggests that
15 it's the 500 hours. I mean, I'm just trying to
16 get -- but, I mean, the math is right.

17 BY MS. LUSSON:

18 Q. If it's \$200 an hour it's \$100,000?

19 A. I didn't do the math, but I'll guess you're
20 right.

21 Q. You got about a million customers; right?

22 A. Right.

1 **Q.** So the cost per customer wouldn't be that
2 high, would it? Even if they're paid a lot more
3 than \$200 an hour?

4 **A.** Okay.

5 **Q.** You agree?

6 **A.** Agree.

7 **Q.** And under the current procedure, it does
8 cost money for the Companies to send a check back
9 to the customer; right?

10 **A.** It would.

11 **Q.** And that money would be saved if the
12 Company applied the credit balance to the supplier
13 as the customer requested; right?

14 **A.** I guess it depends because you're going to
15 have to change your procedures somehow. Instead of
16 sending a check, you process the transfer.

17 **Q.** Right. And that's 500 hours you're talking
18 about changing --

19 **A.** No, I think the 500 hours refers to
20 implementing the system program changes from an ITS
21 perspective.

22 **Q.** And that's what you say that the Commission

1 should consider, right, when you say, quote, The
2 costs involved to make the system programming
3 changes need to be considered; right?

4 **A.** That's the system changes.

5 **Q.** That's what you say the Commission should
6 consider; right?

7 **A.** For the system changes.

8 **Q.** You say that the Commission should look at
9 the costs involved to make the system programming
10 changes. You don't talk about any other costs;
11 right?

12 **A.** You're asking me about other costs.

13 **Q.** You didn't testify about any other costs,
14 did you?

15 **A.** No, I'm trying to respond to the other
16 costs that you're asking me about.

17 **Q.** And the costs I'm asking you about really
18 are the costs that the Company would save
19 associated with processing a check that goes back
20 to the customer. Okay. Do you know what those
21 costs are that the Company incurs to process that
22 check?

1 **A.** I don't.

2 JUDGE MORAN: Let me ask a follow-up.

3 And then how would you then pay the

4 alternative? Would you pay them by check?

5 THE WITNESS: Good question. I don't know at

6 this point. I mean, I don't think we're that far.

7 JUDGE MORAN: Okay. How many customers have

8 asked for this -- have asked to have a credit

9 balance sent to an alternative supplier? Do you

10 have any idea?

11 THE WITNESS: I don't have any numbers. But if

12 you're asking in general how many customers are

13 sitting out there on Choices For You with credit

14 balances?

15 JUDGE MORAN: Yes, that's what I want to know.

16 THE WITNESS: An insignificant amount.

17 JUDGE MORAN: How are we going to define

18 insignificant?

19 THE WITNESS: I don't know that we will. It

20 would be something I'd have to query to provide you

21 with something accurate.

22 JUDGE MORAN: Okay. I'm going to do an ALJ data

1 request for that information.

2 THE WITNESS: Okay.

3 JUDGE MORAN: Okay. Thank you.

4 BY MS. LUSSON:

5 Q. You are aware of at least one figure;
6 correct? There is a figure that's in Mr. Crist's
7 testimony about one alternative supplier that
8 issued almost 500 bills where the amount due on the
9 payment stub different from the account balance
10 because of a utility credit balance that was not
11 shared with the alternative supplier; right?

12 A. Do you have that available?

13 MS. LUSSON: It's Mr. Crist's rebuttal
14 testimony -- I'm sorry, the RGS Exhibit 2.0
15 revised. I believe the ALJs have them from before.
16 The question and answer is at 456 to 463, Page 21.

17 And I think your counsel has a copy of
18 that.

19 BY MS. LUSSON:

20 Q. And it says that there was one supplier
21 that had 500 bills where the amounts differed in
22 127 bills for that one supplier. There were 127

1 bills where the account balance was a credit, but
2 the alternative supplier instead had to ask for a
3 payment; right?

4 **A.** Does this refer to -- it says 500 bills,
5 but are we talking 500 different accounts? What
6 are we referring to here?

7 **Q.** Well, you didn't take any issue with that
8 testimony, did you?

9 **A.** No, but based on what you're asking me now
10 I'm just asking for clarification.

11 **Q.** You were aware of this testimony before you
12 provided your surrebuttal testimony?

13 **A.** Yes, I was aware of it.

14 **Q.** Did you ask any data requests with regards
15 to that testimony?

16 JUDGE MORAN: Well, Mr. Crist is going to be up
17 for cross-examination, so, in fact, there may be
18 cross-examination about that. So maybe that's not
19 the right way to go.

20 BY MS. LUSSON:

21 **Q.** But were there data requests asked about
22 that, though?

1 MS. KLYASHEFF: Objection. I don't see the
2 relevance of whether or not the Company asked a
3 data request as to whether or not he understands
4 your question right now.

5 MS. LUSSON: Fair enough. Fair enough.

6 JUDGE MORAN: Objection sustained.

7 BY MS. LUSSON:

8 Q. You note one other concern with --

9 JUDGE MORAN: And my data request stands.

10 MS. LUSSON: Thank you.

11 BY MS. LUSSON:

12 Q. You note one other concern regarding this
13 transfer of the credit balance. At Line 140 of
14 your surrebuttal testimony you say that there's no
15 reasonable way to determine if a customer contract
16 provides for expressed consent for the transfer;
17 right?

18 A. Correct.

19 Q. Now, each alternative supplier enters into
20 a contract with Peoples Gas and North Shore Gas if
21 it wants to be Choices For You supplier; right?

22 A. Correct.

1 **Q.** I mean, you're not suggesting that an
2 alternative supplier was lying to you in order to
3 be able to get the credit balance transfer, are
4 you?

5 **A.** That's not what I'm saying, no.

6 **Q.** And the contracts between the Utilities and
7 the alternative suppliers have indemnification
8 provisions actually where the alternative supplier
9 indemnifies the Companies; correct?

10 **A.** I'd like it see that.

11 JUDGE MORAN: Indemnifies them for what?

12 MS. LUSSON: For all -- for all sorts of things.

13 BY MS. LUSSON:

14 **Q.** I guess, would that be one way for the
15 Companies to be able to implement this is for that
16 contract to explicitly provide that the alternative
17 suppliers indemnify the Company for any damages
18 that may be associated with the improper
19 notification of a credit transfer?

20 MS. KLYASHEFF: Objection. I don't think this
21 witness is the right witness to talk about what an
22 indemnity will or will not do and how effective it

1 may be and what it may cover.

2 MS. LUSSON: He says that there's no reasonable
3 way for the Utility to be able to determine whether
4 or not this is actually a request from the
5 customer. And so I'm suggesting that it seems like
6 a reasonable way --

7 BY MS. LUSSON:

8 Q. I guess, does that seem like a reasonable
9 way is to ask the alternative suppliers?

10 JUDGE MORAN: Well, but you can ask him if it
11 sounds reasonable without him knowing that, in
12 fact, it can be worked out legally. Ask that
13 question.

14 MS. LUSSON: Fair enough.

15 BY MS. LUSSON:

16 Q. Does that reasonable for you to -- for the
17 Companies to request that the alternative suppliers
18 warrant that the customer has requested that the
19 credit balance be applied to their account?

20 A. I don't know. I'm not sure if that is a
21 reasonable way or not.

22 Q. Because you're afraid the alternative

1 suppliers might lie? You said that's not your
2 concern; right?

3 A. Right. That's what I said.

4 Q. All right. Let's go to one last area
5 dealing with collections. Okay?

6 A. Okay.

7 Q. Mr. Crist suggests that the Companies
8 should allow a customer with arrearages to select
9 an alternative supplier that's offering single bill
10 option; right?

11 A. Okay.

12 Q. So his testimony is that a customer who
13 owes money still to the Utilities should be able to
14 take service with an alternative supplier
15 underneath the LDC single bill option; right?

16 A. Okay.

17 Q. And, again, that currently is not
18 available; right?

19 A. What's not available?

20 Q. That -- if a customer has an outstanding
21 balance with the Utilities, it's got arrearages
22 with the Utilities, it currently cannot take

1 service with an alternative supplier underneath the
2 single bill option; right?

3 **A.** It depends on the timing.

4 **Q.** Well, I guess, if you've got -- you've got
5 Mr. Crist's rebuttal testimony there. Can you look
6 at Line 349 of that. That range right in there.
7 And, actually, I think that it's discussed more at
8 around 402 to 408 -- or, actually, even if you go
9 up above that 390 through 401. All of this section
10 here is dealing with allowing customer with
11 arrearages to receive the single bill option;
12 right?

13 So an alternative supplier is having
14 Peoples or North Shore issue the bill for them,
15 that's the single bill option; right?

16 **A.** Say that again.

17 **Q.** The single bill option that he's referring
18 to here is a situation where Peoples or North Shore
19 are sending a consolidated bill, really, it has
20 both the utility charges and the supplier charges;
21 right?

22 **A.** No. Rider SBO is the supplier.

1 **Q.** I'm sorry. Flip that around.

2 The supplier gives the single bill under

3 S- --

4 **A.** Correct.

5 **Q.** So, in this situation -- and perhaps that's

6 where the confusion was. I apologize if I

7 misspoke.

8 Under Rider SBO the supplier is sending

9 a bill that has both the utility charges and the

10 alternative supplier commodity charges; right?

11 **A.** Okay. Right.

12 **Q.** And underneath the current procedures a

13 customer can't take service underneath that Rider

14 SBO if it currently has arrearages with the

15 Utilities; correct? The alternative suppliers

16 can't issue a single bill to the customer if the

17 customer has an outstanding balance that's past due

18 with the Utilities?

19 **A.** It would move to dual billing in that case.

20 **Q.** Okay.

21 JUDGE MORAN: And what's dual billing?

22 THE WITNESS: Where the Utilities present their

1 bill to the customer and the supplier would present
2 their own bill.

3 BY MS. LUSSON:

4 Q. And, again, you don't know of any legal
5 reason why it is that the alternative suppliers
6 should be prohibited from issuing a single bill in
7 that situation, do you?

8 A. Not that I'm aware of.

9 Q. The concern that you expressed in your
10 testimony had to do with the collections; right?

11 A. What part are you referring to?

12 Q. It's at Lines 118 to 123 of your
13 surrebuttal testimony.

14 A. Yes, that refers to the collection
15 activity.

16 Q. And that's your concern about this,
17 correct, the reason that the suppliers shouldn't be
18 allowed to issue a single bill to the customer in
19 that circumstance is because your concern about the
20 collections for the Utility; correct?

21 A. Correct.

22 Q. And Mr. Crist points out that underneath

1 the single bill option any payment by the customer
2 is first applied to the utility charges and only
3 after all of the utility charges are satisfied does
4 the alternative supplier get paid; correct? And
5 that's in his rebuttal testimony at 406 to 409.

6 **A.** Right. That's the logic behind the -- if
7 there's a payment by the customer.

8 **Q.** And you agree that that is the way in which
9 payments work; correct?

10 **A.** Correct.

11 **Q.** You did suggest that the Companies might be
12 restricted in getting collections information in
13 with the bill to motivate the customer to pay any
14 arrearage; right?

15 **A.** Where did I say --

16 JUDGE MORAN: I don't understand the question.

17 BY MS. LUSSON:

18 **Q.** One of your concerns is that the customer
19 might not be informed about the arrearages, and I
20 think that's in your rebuttal testimony at Line 353
21 to 54.

22 **A.** I see the lines. Can you ask that question

1 again.

2 **Q.** One of your concerns was that the Utilities
3 would not be able to reach out to the customers to
4 let them know that they have the arrearages; is
5 that right?

6 **A.** Correct. We view the billing as a valuable
7 tool to communicate those arrears and we would lose
8 that.

9 **Q.** But the Companies -- I'm sorry.

10 **A.** And we would lose that.

11 **Q.** The Companies do have an option underneath
12 the single bill option to include text on the bill
13 that the alternative supplier sends; correct?

14 **A.** It's an option, but suppliers or not
15 obligated.

16 **Q.** Well, actually, under Rider SBO alternative
17 suppliers are required to print information
18 provided by the Company on the customer's bill;
19 correct? And Mr. Crist testifies about that at
20 Line 413 in his rebuttal testimony and you do not
21 address that issue in your surrebuttal testimony.

22 **A.** He refers to other information provided by

1 the Company, but I don't think that specifically
2 states collection activity.

3 Q. It could be collection activity, couldn't
4 it? There's nothing in that language that
5 prohibits you from using that to include collection
6 language, does it?

7 A. But there's nothing in there that obligates
8 the supplier to include that.

9 Q. Actually, Rider SBO --

10 MS. LUSSON: And, sorry, I didn't think I'd have
11 to go through this.

12 JUDGE MORAN: That's all right.

13 MS. LUSSON: I'm handing you what's being marked
14 as RGS Cross Exhibit McKendry 13.

15 (Whereupon, RGS Cross Exhibit McKendry No. 13 was
16 marked for identification.)

17 BY MS. LUSSON:

18 Q. And this is the Peoples Gas Light and Coke
19 Company Rider SBO; correct?

20 A. Correct.

21 Q. And can you turn to Page 3 of 6. Are you
22 there?

1 **A.** Okay. Yes.

2 **Q.** And there Subsection D refers to CFY

3 supplier obligation section, Choices For You

4 supplier obligations; right?

5 **A.** Yes.

6 **Q.** And it says that the CFY supplier shall do

7 a number of things; correct?

8 **A.** Okay.

9 **Q.** And under No. 4 it says that the CFY

10 supplier shall list in the format required by 83

11 Illinois Administrative Code Section 500.330, the

12 Company charges, consumption data and other

13 information provided by the Company on each bill

14 the CFY supplier issues to the CFY billing

15 customers; correct?

16 **A.** I'm familiar with that, yes.

17 And I guess that's what I'm pointing at.

18 I still don't see where it talks about collection

19 activity and the obligation of the supplier.

20 **Q.** This is not optional; correct? It says

21 that the CFY supplier shall provide other

22 information provided by the Company; correct?

1 **A.** It does say other information provided by
2 the Company.

3 **Q.** Okay. Thank you.

4 And there's nothing there that limits
5 that to prevent the Company from providing
6 collections information, is there?

7 **A.** Can you repeat that question.

8 **Q.** There's nothing in Rider SBO that would
9 prevent the Company from providing other
10 information regarding collections activity, is
11 there?

12 **A.** I wouldn't say there is a limit, but I
13 don't see what it specifically states for
14 collection purposes.

15 **Q.** Fair enough.

16 MS. LUSSON: No further questions.

17 JUDGE MORAN: No further questions. Okay.

18 Redirect?

19 MS. KLYASHEFF: Yes, just a few questions.

20 JUDGE MORAN: Sure. Do you need a break or --

21 MS. KLYASHEFF: I don't think so.

22

1 CROSS-EXAMINATION

2 BY

3 MS. KLYASHEFF:

4 Q. Mr. McKendry, do you recall some questions
5 about Senate Bill 171?

6 A. Yes.

7 Q. Do you know if Senate Bill 171 defines the
8 term switch or customer switch?

9 A. No.

10 Q. Could you please refer to Cross Exhibit 11.

11 A. Okay.

12 Q. On the top line, the Companies approach the
13 box under month two, customer receives bill with no
14 alternative supplier charges instead utility
15 charges.

16 A. Okay.

17 Q. Do you know, would the Company know if the
18 alternative supplier sent a bill on its own?

19 A. We would not.

20 Q. Turning to Cross Exhibit 13, which was
21 Rider SBO. If you could please turn to Page 3, the
22 section we were just discussing.

1 **A.** Okay.

2 **Q.** The words in Item 4 -- list in the format
3 required by 83 Illinois Administrative Code Section
4 500.330. Do you know if that section lists bill
5 messages as one of the items?

6 **A.** No, I don't.

7 **Q.** Do you know if that section addresses
8 collection activity?

9 **A.** No, I don't.

10 MS. KLYASHEFF: I have other questions.

11 JUDGE MORAN: Okay. Any recross?

12 MS. LUSSON: No recross. Thank you.

13 JUDGE MORAN: Okay. All right.

14 MR. FOSCO: Did you want to move to admit any of
15 your cross exhibits?

16 MS. LUSSON: Thank you, your Honor.

17 We move for the admission of RGS Cross
18 Exhibit McKendry 11 and 12. 11 was the new
19 customer chart and 12 was the credit transfer
20 chart.

21 MR. FOSCO: Objections.

22 MS. KLYASHEFF: No.

1 MR. FOSCO: RGS Cross Exhibits 11 and 12 are
2 admitted.

3 (Whereupon, RGS Cross Exhibit McKendry Nos. 11 & 12
4 were admitted into evidence.)

5 JUDGE MORAN: And the witness is excused. Thank
6 you so much.

7 And how soon can I have a response to
8 ALJ Data Request No. 1?

9 MS. KLYASHEFF: The Company will check with its
10 IT Department. But we would hope in the next
11 couple -- few days.

12 JUDGE MORAN: Thank you.

13 I guess that's all the witnesses for
14 today. So we will continue this matter until
15 10:00 a.m. We're going ask everybody to be on time
16 so we can start promptly.

17 (Whereupon, the
18 above-entitled matter was
19 continued to August 25, 2009,
20 at 10:00 a.m.)

21

22